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102

J

J 4092
129

2 NOV 1938

Registry Number J 4092/38/16

TELEGRAM FROM
Sir M. Lampson, Cairo.
No. 571 Decypher

Dated 1st Nov., 1938.
Received in Registry 2nd Nov.,

J: Egypt and Sudan

Proposed agreement between Egypt and Italy.

Refers to Cairo telegram No. 566 (R 8687/23/22).
Egyptian Prime Minister is most anxious to start negotiations with Italy on the same lines as those concluded by His Majesty's Government, and would like to get his agreement signed before the Anglo-Italian agreement comes into force. Enquires whether the Foreign Office agree to this. Egyptian Prime Minister has sent renewed assurances of loyalty to His Majesty's Government and will submit to His Majesty's Ambassador in advance any text which he contemplates putting up to Italy. Requests instructions.
(Repeated to Rome).

Last Paper.

(J2623) J 3988

References.

(Print.)

(How disposed of.)

Tel. Cairo.
No. 554. Nov. 3
7.14. W.O.
A.M.
Admty.

Nov. 4.
(Inward & outward
120s.)

Tel. to Cairo No. 554
Repeated to Rome
No. 481

(Action
completed.)

24.11.38

(Index.)

11

Next Paper.

J. 4098
(J4125)

(Minutes.)

As regards (1) I submit that we should agree to the P. M.'s suggestion.

(2) contains satisfactory assurances.

(3) will in any case enable us to make sure that the Italo-Egyptian agreement contains nothing contrary to Egyptian obligations to us.

(4) should we instruct Sir M. Lampson to let us see the text of the draft agreement before he approves it? (Time is short & perhaps this is not necessary unless he is in doubt about some point).

(Montgomery)
2.XI

Copy of this letter
7 out of 10 to
Service Dept.

Mr. Beckett.
15741 9/37 F.O.
Southern Dept.

It /

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It does not seem to me that negotiations by the Egyptian Government with the Italian Government "on the same lines as ours" (by which I presume is meant the Anglo-Italian conversations of April last) ~~copy annexed~~ ^(copy annexed) will serve any useful purpose, as any agreement to be concluded between Italy and Egypt would be on different lines from those signed in Rome on April 16th. I would suggest that the most suitable course would be, now that H.M.G. have decided to bring the Rome Agreements into force, for the Egyptian Government to inform the Italian Government forthwith that fresh credentials will be sent to their Minister in Rome accrediting him to the King of Italy and Emperor of Ethiopia and for these credentials to be prepared, signed by King Farouk and sent to Rome as soon as possible. After this the Egyptian Government could negotiate a "bon voisinage" agreement with Italy, should such an agreement be required. In any negotiations that may take place between Egypt and Italy the Italian Government will undoubtedly try to inveigle the Egyptians into a non-aggression pact which would probably either be misleading and useless or else contrary to the spirit of the Treaty of Alliance with us.

In spite of the above considerations, I do not suppose that we can object to the course which the Egyptian Prime Minister proposes, provided we can be sure that he will submit to Sir Miles Lampson in advance the text of any draft which he contemplates submitting to Italy, though it may be awkward if we have to object to the terms of such a draft.

V. Cavendish Bentinck

2nd November 1938.

*Southey Dept.
Mr. Beckett.*

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Minutes.

130

It is true that the fact of our bringing into force the agreements contained in the Protocol of April 16th does not seem to offer any basis or analogy for Egyptian negotiations "on the same lines as ours." Egypt was party to the declarations regarding Lake Tsana and the Suez Canal, but I understand that these declarations were of a definite and permanent character. If the reference is to the negotiations which under the Protocol are to be opened with a view to definitive agreement on the boundary between the Sudan and Italian East Africa, there is no question of these beginning before the 16th November or of their being concluded in anything like a couple of days.

On the other hand, I am afraid the Egyptian Government ^{who are} ~~were~~ thinking entirely of their prestige, will not be satisfied with the statements that they have nothing to do but to make out fresh credentials for their Minister, and unless we can suggest some sort of agreement for them to sign they are likely to embark on some kind of non-aggression pact such as has been frequently urged on them in public letters by Sidky Pasha during the last two years. Can we not propose some sort of repetition of the bon voisinage agreement which the Egyptian Minister has already signed, and an exchange of notes between the Egyptian and Italian Governments regarding negotiations to take place...

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Minutes.

place between Egypt as a member of the condominium and Italy with a view to a definitive agreement on the boundary between the Sudan and Italian East Africa? Unfortunately, the unexpectedly rapid termination of the Quarantine Conference will presumably enable Bedawi Pasha, the very troublesome legal adviser, to return this week to Egypt and his presence will greatly increase the danger of not giving the Egyptian Government something to play with.

OK Kelly

3rd November 1938

The point which troubles me most in this telegram is the suggestion that the Egyptians should get their agreement signed a couple of days before November 16th. We do not in the least know what sort of agreement the Egyptians have in mind as the expression "negotiations on the same lines as ours" does not convey anything at all. If all the Egyptians mean to do before the 16th November is to recognise Italian sovereignty over Abyssinia de jure, then I see no particular difficulty and there is certainly no harm in their doing that two days before we do and to do it two days before we do might satisfy them and emphasise their independence of action.

But I do think we ought to deprecate very strongly any idea of negotiating any type of agreement, whether bon voisinage, or non-aggression/

Exactly - that is what disturbed me. OK

NOTHING TO BE WRITTEN IN THIS MARGIN.

Minutes.

131

non-aggression in these few days. Apart from anything else it will be quite physically impossible to do so, and if any attempt is made everything will be so rushed that we shall certainly never get a proper opportunity of being consulted and giving our advice and I think it is also certain that something foolish or harmful or probably both will be done.

W. B. Beckett
3rd November, 1938.

I entirely agree with
Mr. Beckett
W. B. Beckett

As the weight of opinion is against me, I have drafted a telegram intended to ride off the P.M. altogether. But I shall be relieved if it has that effect. It is the "wooliness" of paral which makes me feel that the Egyptians want to sign something - it doesn't make no suggestions they will produce something "foolish or harmful or probably both"! *W. B. Beckett* 3/11

Mr. Beckett has redrafted on the lines I originally meant and I agree with his draft - *W. B. Beckett* 3/11

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Minutes.

I was uneasy on reading an advance copy of this tel: & am glad to see that it caused others also some uneasiness.

The Dft - now submitted strikes me as a most helpful compromise. Let us see the result.

Send
to 3.10.82

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J 4032

132

From: EGYPT.

Decypher. Sir M. Lampson (Cairo)
1st November, 1938.
D. 12.20 p.m. 2nd November, 1938.
R. 12.15 p.m. 2nd November, 1938.

No. 571.

() () () () R
My telegram No. 586.

(1) Prime Minister sent Amin tonight to say that he is now most anxious to start negotiations with Italy on the same lines as ours. Assuming Rome agreements with us will come into force on or about 16th November, he would greatly like to get his agreement signed a couple of days before that so as to avoid the charge of dependency upon us. I undertook to ascertain if you would have any objection to this. It strikes me as a small and petty point on which we might meet Prime Minister's wishes. Do you agree?

(2) I said that we should naturally expect to be kept fully conversant with any negotiations with Italy: and that guiding principle must be avoidance of anything in spirit or in letter conflicted with Egyptian obligations under alliance. This the Prime Minister has already fully agreed to in the past and Amin brought renewed assurance of complete loyalty.

(3) The Prime Minister will submit to me in advance any text a draft he contemplates putting up to Italy.

(4) Have you any instructions.

Addressed to Foreign Office of 1st November, repeated to Rome.

NOV
11 1938
F.O. REGISTRY.

133

To EGYPT.

Cypher telegram to Sir M. Lampson (Cairo).

Foreign Office. 5rd November, 1938. 8.00 p.m.

No. 554.

: : : : : : : : :

IMMEDIATE.

Your telegram No. 571 [of November 1st: proposed agreement between Egypt and Italy].

You refer in paragraph 1 to negotiations between Egypt and Italy on the same lines as our own. The only relevant negotiations between United Kingdom and Italy which will take place before November 16th are (1) the delivery by His Majesty's Ambassador in Rome of new credentials accrediting him to the King of Italy, Emperor of Abyssinia, constituting de jure recognition of Italian sovereignty over Ethiopia, and (2) an exchange of notes fixing the date of entry into force between the United Kingdom and Italy of the eight instruments listed in the Rome Protocol of April last.

2. ① If it had not been for the remarks in paragraph 2 of your telegram, which seemed to envisage negotiations of quite a different character, I should have assumed that the Egyptian negotiations which the Prime Minister had in mind were (a) Egyptian de jure recognition of the conquest of Abyssinia which might be effected in a similar manner to (1) in paragraph 1 above, and (b) an exchange of notes bringing into force the exchange of notes between Italy and Egypt relating to Lake Tsana and to the Suez Canal. ② If

this ...

134
2.

this is what is intended, I see no objection in principle to the negotiations taking place a day or two before our own.

- ③ In the case of the United Kingdom both the Tsana and the Suez Canal Declarations are amongst those listed in the Protocol which come into force at a future date and it might be held that the exchanges of notes on these subjects between the United Kingdom and ^{Egypt} Italy also did not come into force until a later date; at any rate there would be no objection to further Italo-Egyptian notes declaring that they are now in force. In view of the way in which the notes of April 16th are worded however it is difficult logically to bring them into force as regards Egypt before they come into force as regards the United Kingdom. The Tripartite Bon Voininage Agreement is already in force and the tripartite negotiations with regard to the boundaries of the Sudan referred to in the penultimate paragraph of the Protocol cannot take place for some time.

3. You should explain the position to the Egyptian Prime Minister and point out that the only two steps which Egypt could take before November 16th are (a) and (b) in paragraph 2 above; that logically it would be difficult for Egypt to deal with (b) in advance of the United Kingdom but there is no reason why she should not do so as regards (a).

4. If the Egyptian Prime Minister has in his mind other negotiations such as non-aggression pacts or bon voisinage agreements between Egypt and Tripoli, you should impress upon him the absolute impossibility of negotiating entirely new agreements in such a short space of time and the grave dangers being run in attempting to do so. Apart from other difficulties which would in fact render the task insuperable, any rush tactics over these matters would inevitably result in His Majesty's Government not being properly consulted and not having a chance to express their views from the point of view of the Treaty of Alliance.

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103

J

J 4098

3 NOV 1938

EGYPT and SUDAN

Registry Number } J 4098/38/16

FROM Communicated by
the French Embassy.

No. 547

Dated -

Received in Registry } 3rd November
1938.

J: Egypt and Sudan.

Anglo-Italian declaration with regard to the Suez Canal

Gives summary of events with regard to the administration of the Suez Canal since the conclusion of the Suez Canal Convention of 1888. Refers to the declaration regarding this Convention which was included in the Anglo-Italian Agreement of April, 1938, and to the French Government's wish to participate in this declaration. Asks that it may be confirmed that the sole object of the Anglo-Italian declaration is to reaffirm the obligation of the two countries to abide by the terms of their existing engagements.

Last Paper.

(Minutes.)

References.

(Print.)

(How disposed of.)

Off. General Reg.

Nov. 10.

Off. Cairo Chamber

Nov. 17

F. 14. W. O.

A. M.

A. M.

F. 9. Paris

Nov. 18.

F. 10. Sir J. Malcolm

Nov. 18.

(Action completed.)

(Index.)

SP.

14.12.38

Next Paper.

J 4125.

When M. de Charbonnière of the French Embassy left with me on June 7th the aide memoire in J.2294/38/16, I explained to him the genesis of the declaration regarding the Suez Canal Company which formed part of the Rome Agreement of April 16th and the various negotiations which took place with the Italian Government before the terms of that declaration were finally settled. I told M. de Charbonnière that this declaration was purely platonic and symbolic and that in fact it was "eyewash" for the benefit of Italian public opinion, as the two Governments were merely re-affirming their intention to abide by the terms of a convention ^{which} ~~that~~ has been in force for the past 50 years and that there has never been any question of our not abiding by its terms. M. Roché of the French Embassy who brought round the memorandum in this jacket said that the information that I had given M. de Charbonnière had been duly reported to the Quai d'Orsay by the French Embassy, but that the Quai d'Orsay wished to have a ^{signed} note from us confirming that the only purpose of the Suez Canal declaration.....

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declaration which forms part of the Rome agreement of April 16th last is to record the intention of the two signatories to continue to conform to the existing international status of the Suez Canal as defined in the Suez Canal Convention of October 29th, 1888, and the Anglo-French declaration of April 8th, 1924.

? Prepare draft note to French Ambassador to this effect.

Mr. Beckett.

Southern department.

Central department.

WMS
8/4
V. Cavendish

November 4th, 1938.

OK
4/11

I think this French memorandum is extremely interesting. It should be noted carefully by the Department and the Library and the Embassy in Cairo as a useful and excellent statement of the position of this country with regard to the Suez Canal.

Unless the French are in a great hurry for their answer I think we should invite the Service Departments and the Embassy in Cairo to concur in our proposed answer before we send it. If, however, time will not allow of this, I think we should nevertheless write to them on the lines indicated in the following paragraphs sending a copy of our reply merely instead of asking them to concur in it.

I agree that we should do what the French ask and address them a note indicating that the Declaration about the Suez Canal in the Rome Agreement

of/

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Minutes.

137

of April last simply records the undertaking of the U.K. and Italy to continue to conform to the law in force with regard to the Suez Canal, that is to say that the Convention of 1888 as modified by the Agreement of 1904.

In writing to the other Departments and to Cairo, I think we should send a copy of this French note and of the correspondence in J 2294 of June last and I think in writing we should call attention to the following points. The French notes sets out the position of this country with regard to the Suez Canal in a manner which is entirely satisfactory to us. It arrives at its conclusions as regards our position with relation to the Canal by discussing and deducing the results of the various events since the signature of the Convention in 1888, viz. (1) the initial British reservation; (2) the withdrawal of the original reservation and its replacement by a limited reservation referring expressly only to two portions of Article 8 in 1904 as a result of the Anglo-French Declaration and the acceptance of the Egyptian portions of this declaration expressly or tacitly by other Suez Canal Convention Powers; (3) the three peace treaties; (4) the Anglo-Egyptian Treaty of 1936. In doing this the French memorandum draws I think exactly the consequences from each of these steps that we have drawn and corresponds closely to the explanation of this position/

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Minutes.

position which has been furnished in the Foreign Office when required, as for instance recently when we drew up a little statement for communication through Sir I. Malcolm to the Suez Canal Company. The only difference that occurs to me is that the French memorandum states our position in a rather more thorough and categorical manner in our favour than we have generally stated it for ourselves, though in so far as it goes beyond what we ourselves have said I think it is still perfectly correct. It is distinctly interesting and useful to have this reasoned statement of the position from another Government, and moreover, the Government whose nationals virtually control the Suez Canal Company.

We might further point out that the French are quite correct in rather stressing that in our declaration with Italy when we affirmed the Suez Canal Convention of 1888 we must be taken to mean the Convention of 1888 as modified expressly and by implication in 1904. I think the writer of this French memorandum probably thinks that we were rather careless in the Rome Declaration in not making it clear that the declaration referred only to those provisions of the Suez Canal Convention which were still in force. As a matter of fact the Italian Government did give us every opportunity of proceeding on these lines because, if my memory is right, they originally proposed a declaration which referred to certain articles of the Convention only, but we were (I still think probably/

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Minutes.

138

probably rightly) rather nervous of getting involved into a discussion as to which articles should be mentioned and of putting ~~a clause~~ ^{the} or interpretation on the effect of the Convention to-day, that we preferred simply to refer to the Convention of 1888.

The third point is this. This French note points out that the limited reservation made in 1904 under which the Suez Canal Convention really came into force for the first time only referred in terms to the last sentence of paragraph 1 of Article 8 and to paragraph 2 of Article 8, but as the French quite rightly point out (and I feel grateful to them because I have never seen it put so clearly before) what was really done in 1904 was to remove from the provisions of the Convention everything providing for any form of collective action with regard to the Canal either by all the Suez Canal Powers or by those of them who were signatories to the London Declaration of March 1855 with regard to the Egyptian debt. Thus, as the French note points out, really all the rest of Article 8 of the Suez Canal Convention must be deemed to be obsolete, viz. there was no question really since 1904 of the representatives in Egypt of the Suez Canal Convention Powers ever meeting on any occasion to consider the execution of the Convention or events which might menace freedom of navigation or on calling/

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Minutes.

calling for the removal of works or dispersal of concentrations which might threaten the freedom and security of navigation, (vide the portions of Article 8 which are not formally suppressed). On the other hand no doubt the principle that there should not be concentrations or works threatening the freedom and security of navigation remains. Similarly, in Article 9 there is no obligation now upon H.M.G. as the successors of the Ottoman Government under the second paragraph of Article 9 to give notice to the Powers signatories to the Declaration of 1885 or to concert with them as regards measures necessary in response to the request by the Egyptian Government for assistance in the matter of the protection of the Canal. We certainly proposed to act on such a basis if the Suez Canal is ever threatened; if we did not hold this view it is really rather doubtful if we could have concluded Article 8 of the Treaty of Alliance with Egypt and its Annex without at any rate giving notice to these Powers. The French note really on this point ^{really} states and gives the legal reasoning in favour of a point which we have taken for granted without thinking it out fully. Our reasoning had rather stopped short at the point where we had shown that we were the successors of the Ottoman Government under the paragraph and we have simply ignored and never dealt with the question whether as successors of the Ottoman Government we should have to give notice as the Ottoman Government under that paragraph is required/

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Minutes.

139

required to do. Similarly, under Article 10, paragraph 2, we never had any intention that either we or the Egyptian Government should give any notice to other Powers as laid down in this paragraph, but in this, as in the previous case, we have rather ignored the point that we had not disposed of this notice merely by the showing that we were the successors of the Ottoman Government. One has to show not only this but that the real meaning of the 1904 reservations was and was accepted to be to cut down all provisions with regard to collective action of the Convention Powers. When the French note says that Articles 9 and 10 and the remainder of Article 8 are obsolete (top of page 2), I think it is going further than we go - further than I think is correct, and further in fact I think than the memorandum itself means to go if it is read as a whole. It would be more correct to say, and I think the French memorandum really means to say, that these provisions are obsolete in so far as they provide for any collective action by the 1885 Powers or of the parties to the Suez Canal Convention.

A. B. A. A.

7th November, 1938.

I see from the minutes in 72296 that the amendment I wanted to make to Sec 9. But cables printed memo was too late for incorporation. If this memo is ever revised, I think

NOTHING TO BE WRITTEN IN THIS MARGIN.

Minutes.

that this note shows that there is a further addition to the original copy. possible as for the 2nd French note in an Annex would meet the case

I understand the French to want an answer urgently: but also I do not see how the Service Dept could object, and it seems therefore a pity to delay replying to the French Embassy. We can send them a copy of our reply putting out in covering letter the valuable confirmation of our standpoint afforded by the French memo. or indicating Mr Beckett.
 DM
 8/11

As M. Roché, of the French Embassy, informed me when leaving this aide-mémoire that the Quai d'Orsay are anxious for an early reply. I submit, herewith, a draft note to the French Ambassador. After it has gone off, we can then communicate with the Service Departments and the Embassy in Cairo on the lines suggested in Mr. Beckett's minute.

V. Comandant Bentinck

8th November 1938.

DM
 8/11
 L.S.

See within Sir Ian Malcolm's despatch No 60 of Dec. 1938.

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10c 145

FOREIGN OFFICE, S.W.1.

No. J 4098/38/16.

10th November, 1938.

Your Excellency,

On the 2nd November Your Excellency caused to be handed to my department a memorandum on the subject of the declaration regarding the Suez Canal which forms part of the Agreement signed in Rome on the 16th April last by His Majesty's Ambassador and the Italian Minister for Foreign Affairs.

2. In reply to the enquiry contained in the last paragraph of that memorandum I have the honour to inform Your Excellency that the purpose of this declaration was to record the intention of His Majesty's Government in the United Kingdom and the Italian Government to continue to conform to the international rules at present in force with regard to the Suez Canal which result from the Suez Canal Convention of the 29th October, 1888, combined with the Anglo-French Declaration of the 8th April, 1904.

I have the honour to be, with the highest consideration,

Your Excellency's obedient servant,
(For the Secretary of State)

ATTEN: A.D. (PS)

His Excellency

Monsieur Charles Corbin, G.C.V.O.,

etc., etc., etc.

(84126)

15741 9/37 F.O.P.

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146

(J 4098/38/16)

FOREIGN OFFICE, S.W.1.

17th November, 1938.

Dear Chancery,

We send you herewith copies of two memoranda which we received from the French Embassy on the 8th June and 3rd November, together with copies of our replies thereto, on the subject of the declaration regarding the Suez Canal which forms part of the Anglo-Italian agreement signed in Rome on the 16th April last. We think the second French memorandum is extremely interesting and provides an excellent statement of the position of this country with regard to the Suez Canal. In particular we should like to call your attention to the following points.

The memorandum sets out the position of this country with regard to the Suez Canal in a manner which is entirely satisfactory to us. It arrives at its conclusions by discussing, and making deductions from, various events which/

The Chancery,
British Embassy,
Cairo.

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Text Paper.

(J4126)

15741 9/37 F.O.P.

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146A

which have occurred since the signature of the original Suez Canal Convention of 1888, viz: 1) the initial British reservation, 2) the withdrawal of this reservation and its replacement in 1904 by a limited reservation referring expressly only to the last sentence of paragraph 1 and to paragraph 2 of Article 8 of the Convention; this resulted from the Anglo-French declaration of April, 1904, the Egyptian portions of which were expressly or tacitly accepted by the other signatories of the Convention, 3) the three Peace Treaties, 4) the Anglo-Egyptian Treaty of 1936. The French memorandum draws, we think, exactly those consequences from each of these steps that we ourselves have drawn and corresponds closely to the explanation of our position which has been furnished in the Foreign Office when required (e.g. the statement which we recently drew up for communication through Malcolm to the/

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 P.O.P.

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147

the Suez Canal Company - this followed the lines of paragraph 2 of our despatch to you No. 291 of the 10th March last). The only difference that occurs to us is that the French memorandum states our position in a rather more thorough, categorical and favourable manner than we have generally stated it ourselves, though in so far as it goes beyond what we ourselves have said we think it is still perfectly correct. In any case it is distinctly interesting and useful to have this reasoned statement of the position from another government and moreover from a government whose nationals virtually control the Suez Canal Company.

The second point is that the French are quite correct in stressing that in the Suez Canal declaration annexed to the Anglo-Italian Agreement of the 16th April last, the reference to the Suez Canal Convention of 1888 must be taken to mean the Convention as modified expressly and by implication in 1904. We think that the writer

of/

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 F.O.P.

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148

of the French memorandum probably thought that we were rather careless in the Rome declaration in not making it clear that the declaration referred only to those provisions of the Suez Canal Convention which were then in force. As a matter of fact the Italian Government did give us every opportunity of proceeding on these lines because they originally proposed a declaration which referred specifically to certain provisions of the Convention; we however were rather nervous of getting involved in a discussion as to which provisions should be mentioned and of thereby putting any gloss or interpretation on the effect of the Convention, and we accordingly preferred a simple reference to the whole document.

Thirdly, the French memorandum points out that the limited reservation made in April 1904, when the Convention may really be said to have come into force for the first time, only referred in terms to the last sentence of paragraph 1 and to paragraph 2 of Article 8; the French quite rightly point out however (and we feel grateful to them because we have never seen it so clearly/

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/57 F.O.P.

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149

clearly put before) that what was really done in 1904 was to remove from the Convention everything providing for any form of collective action with regard to the Canal either by all the Suez Canal Powers or by those of them who were signatories to the London declaration of March 1885, with regard to the Egyptian debt. Thus, as the French memorandum points out, all the rest of Article 8 of the Suez Canal Convention must really be deemed to be obsolete, viz. there has been no question since 1904 of the representatives in Egypt of the Convention Powers ever meeting on any occasion to consider the execution of the Convention or to call for the removal of works or dispersal of concentrations which might threaten the freedom and security of navigation (vide the portions of Article 8 which are not formally suppressed). On the other hand, no doubt, the principle that there should not be concentrations or works threatening the freedom and security of navigation/

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 F.O.P.

navigation remains. Similarly, there is no obligation now upon His Majesty's Government, as the successors of the Ottoman Government, to give notice under the second paragraph of Article 9 to the Powers signatories to the declaration of 1885 or to concert with them as regards the measures to be taken in response to a request by the Egyptian Government for assistance. We certainly proposed to act on such a basis if the Suez Canal was ever threatened; if we did not hold this view it is rather doubtful if we could have concluded Article 8 of the Treaty of Alliance with Egypt and its annex without at any rate giving notice to these Powers. The French memorandum on this point really gives the legal reasoning in favour of a point which we have taken for granted without thinking it out fully. Our reasoning had rather stopped short at the point where we had shown that we were the successors of the Ottoman Government and we have simply ignored and never/

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

Sir Ian

151

never dealt with the question whether as successors of the Ottoman Government we should have to give notice as the Ottoman Government under paragraph 2 of Article 9 is required to do. Similarly, under Article 10, paragraph 2, we never had any intention that either we or the Egyptian Government should give any notice to other Powers as laid down in this paragraph, but in this, as in the previous case, we have rather ignored the point that we had not disposed of the obligation to give such notice merely by showing that we were the successors of the Ottoman Government. We have to show not only this but that the real meaning of the 1904 reservations was, and was accepted to be, to cut down all provisions with regard to collective action by the Convention Powers. When the French memorandum says that Articles 9 and 10 and the remainder of Article 8 are obsolete we think it is going further than we go, further than we think is correct, and further, we think, than/

THE UNDER-SECRETARY OF STATE
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 F.O.P.

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Mr Ian

152

than the memorandum itself means to go if it is read as a whole. It would be more correct to say, and we think the French memorandum really means to say, that these provisions are obsolete in so far as they provide for any collective action by the 1885 Powers or of the parties to the Suez Canal Convention.

Yours ever,

Egyptian Department.

subject of the declaration regarding the Suez Canal, which forms part of the Anglo-Italian Agreement signed in Rome on the 16th April last.

I have the honour to be,

Sir,

Your obedient Servant

Amthor

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 F.O.P.

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From Sir Ian Malcolm

INDEXED

94098/38/16153

10, AVENUE D'ÉNA, PARIS (XVI^e ARR.)

TEL: PARRY 28-84

CONFIDENTIAL:

December 1, 1938.

SUEZ CANAL,
Commercial No. 60.

Sir,

I have the honour to acknowledge with many thanks your Despatch No. 52, of November 18, 1938, enclosing copies of correspondence between the Foreign Office, the French Embassy, London, and the British Embassy, Cairo, on the subject of the declaration regarding the Suez Canal, which forms part of the Anglo-Italian Agreement signed in Rome on the 16th April last.

I have the honour to be,

Sir,

Your obedient Servant

Ian Malcolm

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

Next Paper.

(84126)

15741 9/37 F.O.P.

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104

J

J 4125

7 1554 1938

EGYPT and SUDAN

Registry Number } J 4125/38/16

TELEGRAM FROM
Sir M. Lampson, (Cairo)
No. 585 Decypher.

Dated 5th Nov: 1938

Received in Registry } 7th Nov 1938

J: Egypt and Sudan

Proposed agreement between Egypt and Italy.

Refers to Foreign Office telegram No. 554 of 3rd November, 1938 (J 4092/38/16). Amin Osman Pasha will point out to Egyptian Prime Minister that only feasible course for Egyptian Government to pursue will be to exchange notes with Italian Government about recognition of Italian sovereignty over Ethiopia. Prime Minister wishes to connect recognition with some reference to position of Copts in Ethiopia, and has asked for His Majesty's Government's help. Cairo telegram No. 586 (J 4126/38/16) gives text of draft note from Egyptian Government to Italian Government, drawn up by Mr. Bateman and handed to Amin Osman for consideration. Asks for Foreign Office observations.

Last Paper.

(J 4092) J 4098

References.

J 4091/24/1

(Minutes.)

Telegram J. 4126.

v23
7/21.

(Print.)

(How disposed of.)

Repeated to Rome
No. 485Copies sent to
W.O., G.M. & Admiralty
on J 4126.

(Action completed.)

SP.
24.11.38

(Index.)

78
11

Next Paper.

(J 4126)

15741 9/37 F.O.P.

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From EGYPT.

J 4125
155
7 NOV 1938

Decypher. Sir M. Lampson. (Cairo).
5th November, 1938.

D. 7.14 p.m. 5th November, 1938.

R. 7.0 p.m. 5th November, 1938.

No. 585.

IMMEDIATE.

Your telegram No. 554.

The position has been explained to Amin Osman who will point out to the Prime Minister that the only feasible course for the Egyptian Government to pursue will be to exchange notes with the Italian Government about recognition of Italian ^{sovereignty} over Ethiopia.

2. Prime Minister however wants to connect recognition with some reference to position of the Copts in Abyssinnia (this of course for internal political reasons) and has asked for our help.

3. Draft note which forms subject of my immediately following telegram was drawn up by Mr. Bateman and handed to Amin Osman for consideration today on the understanding that if the Egyptian Government adopted it as their own they should make quite sure at Rome that it would be acceptable to the Italian Government before it was actually presented.

4. It is intended to be a harmless face saving device and I trust you will see no objection to it.

5. Please telegraph your observations.

RECEIVED
P.O. 222117

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Copies of the first exchange of telegrams
were sent to Service Departments - please
see J 4092.

Should copies of the later telegrams also
be sent to them, please?

Egyptian Division.

9.11.1938.

Yes please.

(Initialed) I.W.Y.

10.11.1938.

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J 4126 157
7 NOV 1938

FROM EGYPT.

Decypher. Sir M. Lampson (Cairo).

5th November, 1938.

D. 9 p.m. 5th November, 1938.

R. 8 p.m. 5th November, 1938.

No. 586.

IMMEDIATE.

Following is text referred to in my immediately preceding telegram.

Your Excellency,

I have the honour to inform Your Excellency that his Egyptian Majesty's Government have decided to recognize de jure Sovereignty of Italy over Abyssinia.

Accordingly my August Sovereign His Majesty King Farouk I, will provide at the earliest possible moment that his Minister plenipotentiary at Rome with letters accrediting him as His Minister plenipotentiary and Envoy Extraordinary to His Majesty the King of Italy and Emperor of Ethiopia.

In informing Your Excellency in this sense I have the honour to state that His Egyptian Majesty's Government ^{confidentially} confidentially trust the Royal Italian Government will be willing to make a declaration

regarding the free exercise of religion and treatment of religious bodies in Italian East Africa having an age long connexion with Patriarchate of Alexandria similar to that made by His Excellency Count Ciano to the Earl of Perth on April 16th 1938 at Rome.

I have the honour to request that Your Excellency will be so good as to inform me as soon as possible that the Royal Italian Government are in fact ready to accede forthwith to this desire of His Egyptian Majesty's Government

I avail etc., etc.,

ROYAL
EGYPTIAN
REGISTRY

(4246)

No Egyptian
Topics will follow & not proceed thus
10258

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159

(J.4126/38/16).

To: EGYPT.

Cypher telegram to Sir M. Lampson, (Cairo).

Foreign Office. 8th November, 1938. 7.30.p.m.

No. 568.

IMMEDIATE.

-----oOo-----

Your telegram No. 586 [of November 5th: proposed agreement between Egypt and Italy].

I see no objection to the note which Egyptian Prime Minister proposes to address to Italian Minister in Cairo.

Exchange of notes bringing Anglo-Italian agreement into force will probably be signed on November 16th and Lord Perth is expected to present his new credentials before then.

Please inform me if Egyptian Government also contemplate exchange of notes with Italy after or before November 16th stating that Tsana and Suez Canal notes are in force. I do not consider these to be necessary but see no objection. If this exchange is effected, then as pointed out in Rome telegram No. 698 theoretically there should also be further exchange of notes between Egypt and the United Kingdom which, if necessary, can be considered at leisure.

If, however, you have no reason to suppose that Egyptian Government contemplate exchange of notes mentioned in preceding paragraph matter should not be raised.

Repeated to Rome No. 487.

U (J4246)

No Egyptian
topics will follow & not proceed as
1023/5

104

J

J 4169

160
7 NOV 1938

EGYPT and SUDAN

Registry Number J 4169/38/16.

TELEGRAM FROM
Lord Perth (Rome)

No. 698 Decypher

Dated 7th November, 1938

Received in Registry 7th November, 1938.

J: Egypt and Sudan.

Proposed agreement between Egypt and Italy.

Refers to Foreign Office telegram to Cairo No. 554 of 3rd November, 1938, (J 4092/38/16), and suggests that passage in third sentence of second paragraph should read "between United Kingdom, Egypt and Italy". Suggests also that if further Italian and Egyptian notes are contemplated, further Anglo-Egyptian notes will be required.

(Repeated to Cairo).

Last Paper.

(J 4126)

(Minutes.)

References.

This telegram would presumably not have been despatched if Lord Perth had received Sir M. Lampson's telegram in J. 4126 and J. 4125. I suggest that these be repeated to Rome.

(Print.)

Mr. Dykett.

Mr. Lampson's Dept.

V. Comarinski
7.11.

(How disposed of.)

Tel. Rome.
No. 488. Nov. 8
Repeated to
Cairo No. 569.

Copies of wires:
Sent to W.O. & M.
& Admiralty. (J 4126)

In the 3rd sentence of para 2
from tel Nov 4 554
"UK and Italy" should read
"Egypt and Italy". We should
correct this - It is the ship
which has puzzled Lord Perth.

Thematically further Egypt-UK note
would be required in which it
would be said that these notes
were also in force between UK &
Egypt now. But this is a fairly
important.

I take Sir M. Lampson's tel in J. 4125
to mean not that the Suez
Canal comes in to the notes
are dropped but merely that
the Egyptian note on these
topics will follow & not precede ours
last 11.

(Action completed.)

24.11.38

(Index)

178

Next Paper.

J 4196
(J 4246)

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I hope we shall be able
to make the situation as
clear as possible to Lord
Peth, so that there may
be no possible scope for
misunderstanding.

Edw
8/XI
2 telegrams submitted
on 8/11

G.M. 8.11.38.

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From ITALY.

J 4169

7 NOV 1938

Decypher. The Earl of Perth (Rome)
7th November, 1938.

D. 2.0 p.m. 7th November, 1938.

R. 2.15 p.m. 7th November, 1938.

No. 698.

VVVVVVV

I am a little puzzled about second paragraph of your telegram No.554 to Sir M. Lampson. Should not passage in third sentence referring to exchange of notes read "between United Kingdom, Egypt and Italy" also if further Italian and Egyptian notes are contemplated will not further Anglo-Egyptian notes be required?

Addressed to Foreign Office. Repeated to Cairo.

13V
1436
F.O. REGISTRY.

162

(J 4169/58/18).

TO ITALY

Cypher telegram to The Earl of Perth (Rome).

Foreign Office. 8th November, 1958. 7.40 p.m.

No. 488.

IMMEDIATE.

Your telegram No. 698 [of November 7th:
proposed agreement between Egypt and Italy].

In the third sentence of paragraph 2 of my telegram
No. 554 "United Kingdom and Italy" should read "Egypt and
Italy".

You will see from Cairo telegrams Nos. 585 and 586
and my telegram to Cairo No. 588 that note which Egyptian
Government propose to address to Italian Minister in Cairo
announcing de jure recognition of Italian sovereignty over
Ethiopia is anodyne and harmless.

Repeated to Cairo No. 589.

1938	J	J 4196 163 10 NOV 1938
	EGYPT and "SUDAN"	
<p>Registry 4196/38/16. From Mr. Millington (Montevideo) to L. Oliphant. Dated 21st Oct. 1938 Received 30th Nov. 1938 Registry Egypt and Sudan.</p>		

Last Paper.
J 4169

References.

(Print.)

(How disposed of.)
 7.9. Cairo.
 No. 1402 Nov. 15.

(Action completed.) 18.11.38	(Index.) J 4169
---------------------------------	--------------------

Next Paper.
J 4246
(J 4500/741/16.)

Italian activities in Egypt.
 Refers to Montevideo telegram No. 62 of 6th December, 1937, (J 5063/127/16), regarding the appointment of Signor Mazzolini as Italian Minister in Cairo. Has received an anonymous letter reporting remarks made by an intimate friend of Signor Mazzolini to the effect that Signor Mazzolini had been given a "great mission" and that within a short time Egypt would be a continuation of Italian Africa. Suggests that His Majesty's Embassy at Cairo should be informed accordingly.

(Minutes.)
 Secret
 Copy Cairo. Yes in a p.l.
 R. Cunningham
 In. 21.
 In practice S. Mazzolini has not lived up to his reputation and anyone who knows S. Parini (who was attached to the Italian delegation at Montevideo as a sort of spy on his colleagues) and S. Mazzolini, will agree that there has been no case of "out of the frying pan into the fire". S. Mazzolini has avoided open propaganda, and we have had no evidence of his associating himself with secret propaganda any more than his predecessors; while he was at pains to keep on friendly relations with the Embassy. S. Parini would on the other hand have been a real danger: apart from his antecedents as organizer of fascists abroad, he struck all of us at Montevideo as a sullen brute.
 Southern Dept. 11/11

J 4196
10 NOV 1938

BRITISH LEGATION,
MONTEVIDEO, 164

21st October, 1938.

R 9 Nov

My dear Oliphant,

My telegram No. 62 of the 6th December, 1937, told you what a firebrand was Mazzolini, the Italian Minister here who went to Cairo. Perhaps you will recollect my saying that in my opinion the Egyptian Government, in refusing the appointment of the head of the Foreign Propaganda Department but accepting Mazzolini, had probably fallen from the frying pan into the fire!

I have just received an anonymous letter which has a genuine ring about it, apropos of the present war crisis. It is to say that a man, who was an intimate friend of Mazzolini, at some convivial supper party recently said, by way of boasting how far he was in Mazzolini's confidence, that the latter had told him that he had been given a "great mission". The talkative gentleman, on being pressed, said that within a short time Egypt would be a continuation of Italian Africa.

Of course one does not want to attach too much importance to an anonymous letter, but it occurs to

me /

Sir Lancelot Oliphant,
K.C.M.G., C.B.

4259/38/16.	
(Index.)	11.38
Next Paper. (4247)	

The "[? has]" must be (or a very) should be) "and 2".

I have informed Mr. Yencow by telephone. He confirmed that the text should read "Count Ciano and I have today signed a declaration" — DVM 15/11

165

2.

me that, to the Embassy at Cairo, it might be a straw which showed which way the wind blew or even be the one to "break the camel's back", in the sense of being one more link, and perhaps a conclusive one, in a chain of evidence. That is why I feel it just worth while writing to you.

A duplicate of this letter, for transmission to Cairo, is attached.

Yours ever
E. Mitting for Drake

I hope to be back for a short spell of leave at the end of November

Once Depo. on
 4259/38/16.

The "[? has]" must be (or at any rate should be) "and?"

15/11
 I have informed Mr. Gencow by telephone. He confirmed that the text should read "Count Ciano and I have today signed a declaration" — *DVK 15/11*

(Index.)
 11.38

Next Paper.

(4247)

J

J 4246
166
15 NOV 1938

EGYPT and SUDAN

Registry Number J 4246/38/16.
TELEGRAM FROM
Lord Perth, (Rome).
No. 707 Decypher.
Dated 14th November, 1938
Received in Registry 15th November 1938.
J: Egypt and Sudan.

Agreement between Egypt and Italy and proposed exchange of notes between His Majesty's Government and Egyptian Government.
Egyptian Chargé d'Affaires has reported action taken with regard to recognition by Egypt of Italian sovereignty over Ethiopia. He is anxious that proposed exchange of notes between Italian Minister of Foreign Affairs and himself regarding coming into force of Lake Tsana and Suez Canal declarations should take place on same day that Count Ciano and Lord Perth sign declaration bringing Anglo-Italian protocol and agreements into force; and that similar exchange of notes should take place between His Majesty's Government and Egyptian Government. Requests instructions. (Repeated to Cairo).

Last Paper.
(J4169) J4196

(Minutes.)

References.

The text in J 4246 seems harmless. Mr. Yencen has asked that we telephone to him in Rome this morning to confirm, as Italian M.F.A. are anxious to get texts printed today in order to fulfil Egyptian desire for exchange tomorrow. ? after (A inform Cairo A.A.) DVM 15/11

(Print.)

(How disposed of.)

Tel. Cairo.
No. 585 Nov. 15.
Copies of telegraphic wires sent to Service Dept. on J4259/38/16.

Mr Beckett
Southern Dept.
14/11/38

The "[? has]" must be (or at any rate should be) "and 2".

6213 15/11
I have informed Mr Yencen by telephone. He confirmed that the test should read "Count Ciano and I have today signed a declaration" — DVM 15/11

(Action completed.)

(Index.)

Op.
24.11.38

1/1

Next Paper.

(J4247)

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J 42467

15 NOV 1938

From: ITALY.

Decypher. The Earl of Perth, (Rome).

November 14th, 1938.

D. 3.50.p.m. November 14th, 1938.

R. 4.50.p.m. November 14th, 1938.

No. 707.

-----oOo-----

IMPORTANT.

The Egyptian Chargé d'Affaires told me this morning of the action which he had taken on Saturday in accordance with instructions of his Government regarding the recognition of Italian sovereignty over Ethiopia. He had further asked Count Ciano whether he would agree to an exchange of notes stating declarations as regards Lake Tsana and the Suez Canal [? would] now come into force. Minister for Foreign Affairs had replied that he saw no difficulty and asked Chargé d'Affaires to consult the Italian experts. Chargé d'Affaires was most anxious that this exchange of notes between the Italian Minister for Foreign Affairs and himself should take place on the same day as the Minister for Foreign Affairs and I signed declaration bringing the protocol and agreements into force. He added that his Government would like to complete the matter by having a similar exchange of notes between the Egyptian Government and His Majesty's Government.

After discussion with him I drafted a tentative text of a note which might be exchanged between Count Ciano and him and between Minister and myself. I said that I had not yet consulted His Majesty's Government and asked him to let me know the result of his conversation with Italian experts to whom he would

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168

2.

would submit draft. My immediately following telegram gives the text. Do you approve and, if so, may I have authority to sign such a note after Minister for Foreign Affairs and I have signed main declaration. It seems to me desirable that our action and that of the Italian Government should be simultaneous and Chargé d'Affaires was anxious that this should be so.

Addressed to Foreign Office No. 707; repeated to Cairo.

NOV
15
F.O. REGISTRY.

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J		J 4259 16 NOV 1938
EGYPT and SUDAN		
<p>1938</p> <p>Registry Number J 4259/38/16 TELEGRAM FROM Lord Perth, Rome.</p> <p>No 710 (R)</p> <p>Dated 15th Received Nov: 1938 in Registry 16th</p> <p>J : Egypt and Sudan</p>	<p><u>Anglo-Italian agreement : exchange of notes with Egyptian Government.</u></p> <p>Refers to Rome telegram No. 709 of 14th November, 1938 (J 4255/158/1). Italian Government propose to issue on 16th November a communiqué giving text of declaration bringing Anglo-Italian agreement into force and mentioning exchange of notes with Egyptian Chargé d'Affaires. A second communiqué will contain the text of these notes.</p> <p>Assumes that text of exchange of notes with Egyptian Chargé d'Affaires will be released for publication in Thursday morning's press. Gives substance of the draft notes.</p>	
<p>Last Paper.</p> <p>(J 4254)</p>	<p style="text-align: center;">(Minutes.)</p> <p>The News Dept are releasing this afternoon (1) the text of the Anglo-Italian declaration signed today and (2) the text of Lord Perth's note to the E. Ch. d'A. as given in Rome tel. no 708, amended as stated within.</p> <p style="text-align: right;">I. Wilson King 16/11</p>	
<p>References.</p> <p>Rome tel. no 708 of 14th Nov. 1938 J 4247/38/16.</p> <p style="text-align: center;">(Print.)</p>	<p style="text-align: center;">(How disposed of.)</p> <p>7.14 W.O., Q.M., Remy.</p> <p>(Telegraphic copies: in J 4246, J 4247, J 4254 + J 4259.)</p> <p>Nov. 19.</p>	
<p>(Action completed.)</p> <p>25.11.38</p>	<p>(Index)</p> <p>11/5</p>	<p>On the Council's instructions I have informed the Yunnan by telephone of the above. The Yunnan confirmed that all the correspondence between the Italians, Egyptians & ourselves was being released by the Italians this afternoon.</p> <p>News Dept 16.11.38 15741 9/37 F.O.P.</p> <p style="text-align: right;">I. Wilson King 16/11. 16/11</p>
<p>Next Paper.</p> <p>J 4260.</p>		

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Should copies of the recent telegrams be
sent to the Service Departments, please?

Egyptian Division.

18th November, 1938.

Yes please.

(Intld.) I.W.Y.

18th November, 1938.

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From ITALY.

Decode. The Earl of Perth (Rome),
15th November, 1938.

D. 9.25 p.m. 15th November, 1938.

R. 9.30 a.m. 16th November, 1938.

No. 710. (R).

J 4259
175
16 NOV 1938

IMMEDIATE.

My telegram No. 709.

Immediately after signature which has been fixed for 5 p.m. tomorrow the Italian Government are issuing a communiqué giving the text of the declaration and mentioning exchange of notes with Egyptian Chargé d'Affaires. A second communiqué will contain the text of these notes. I understand that there will be a special late edition of some of the evening papers tomorrow.

I assume that you will release for publication in Thursday morning's press, text of my note to the Egyptian Chargé d'Affaires is as given in my telegram No. 708 with words "Italian Minister for Foreign Affairs" substituted for "Count Ciano". Egyptian Chargé d'Affaires' reply to me acknowledges the receipt of my note which it recapitulates and ends by sentence "I shall have pleasure in communicating this information to Egyptian Government".

16 NOV 1938
F.O. REGISTRY.

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J		J 4266 176 16 NOV 1938
1938	EGYPT and SUDAN	
Registry Number J 4266/38/16 TELEGRAM FROM Lord Perth, Rome No. 274 Saving Dated 14th Received Nov: 1938 J : Egypt and Sudan.	Italian attitude as regards the Suez Canal. Quotes extract from article entitled "The Problem of Suez" published in the "Popolo d'Italia" on 13th November, 1938, urging the importance of a revision of the Suez Canal tariffs. There have been several articles on these lines recently. Messages from London report that one newspaper poster bore the words "Mussolini demands Suez". Summary follows by post. (Repeated to Cairo).	
Last Paper.	(Minutes.)	
J 4259		
References.		
(Print.)		
(How disposed of.)		
Copies sent to B. of T. & T. on J 4311. F. 9. Rome. No. 1674 Nov/28 (M. Carter's letter of 18th Nov. enc.)	The London press has recently been giving some unfortunate publicity to the Suez Canal and alleged Italian claims in connexion therewith. This was started by M. Poliakov in the "Evening Standard". In August Sir Noel Charles sent us the summary of three articles ^{which} which had appeared in the Italian press, regarding the Suez Canal, which contained a number of gross misstatements. We therefore sent a despatch to Rome correcting the misstatements contained in these articles. Sir Noel Charles sent a personal letter to Count Ciano embodying the substance of our despatch with the result that at the beginning of September the "Messaggero" printed a couple of articles which contain a more sober statement of the Italian case for a reduction of the Suez Canal dues. These dues will have been reduced between July 1935 and December 15th next from 7/6 to 5/9 per ton for vessels with cargo, from 3/9 to 2/10½ per ton for vessels in ballast, and from 12/4 to 5/9 per passenger. I annex a copy of a statement on the reduction of these dues which I have received /	
(Action completed.)	(Index.)	
DP. 2.12.38	17	
Next Paper.		
J 4311		

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received from the Board of Trade and I would suggest that we should send a copy thereof to the Embassy at Rome for their information. *A memorandum on possible Italian representation re Board of Trade Canal Co. in being submitted separately.*

18th November 1938.

*Summit Dept. 9/10/38
10/11*

*O'Kelly
19/11*

No. 21 Nov.

*AB.
Nov. 21. 1938*

See within letter from Mr. Carter, B. of T., of Nov. 18th.

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FROM ITALY.

J 4266
16 NOV 1938

177

Telegram (en clair) from The Earl of Perth (Rome)
14th November, 1938.

D. 14th November, 1938.

R. 16th November, 1938.

No. 274 Saving.

VVVVVVV

Yesterday's "Popolo d'Italia" published an article entitled "The Problem of Suez" which urges the importance of a revision of the Suez Canal tariffs. The writer of the article makes it clear that it is "not the political, strategic position of the Canal that it is desired to modify. This could be considered satisfactory under the regulations of the Convention of 1888 which had been reiterated in the recent Anglo-Italian Agreements. It was the economic régime and specially the tariffs which urgently required revision and adaptation to the necessities of the countries principally interested in traffic through the Canal."

There have been several articles on these lines of late and messages from London reported that one newspaper poster bore the headline "Mussolini demands Suez".

Summary follows by post.

Addressed to Foreign Office, repeated Cairo.

FO
SECRETARY.

yes. /

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SUEZ CANAL DUES

173

Changes in rates of dues since 1928

Date	Vessels		Passengers
	with cargo	in ballast	
	Per Suez Canal Net ton.	Per Suez Canal Net ton.	Per Passenger
1st April 1928	7.00 gold francs	4.50 gold francs	10.0 gold francs
1st Jan. 1929	6.90 "	4.40 "	" "
1st Sept. 1930	6.65 "	3.325 "	" "
5th Nov. 1931	6.00 "	3.00 "	" "
1st April 1934	5.75 "	2.875 "	" "
8th July 1935 (a)	7/6d. or 36.56 Egypt- ian piastres (=5.75 gold francs)	3/9d. or 18.28 Egyptian Piastres (=2.875 gold francs)	" "
4th May 1936			12s. 4d. or 60 Egyptian piastres
1st April 1937	6/0d. or 29.25 Egyptian piastres	3/0d. or 14.625 Egyptian piastres	
from 15th (b) December 1938	5/9d. or 28.030 Egyptian piastres	2/10d. or 14.015 Egyptian piastres	5s. 9d. or 28.030 Egyptian piastres

Notes

- (a) Since 8th July 1935, the dues have been assessed on a sterling basis.
- (b) This was decided by the Company on the 5th September 1938 and announced in the press on the 7th September 1938.

Yes. /

<p>1938</p> <p>Registry Number } 4311/38/16.</p> <p>FROM Lord Perth.</p> <p>Rome.</p> <p>No. 1032 (265/21/38).</p> <p>Dated 16th Nov. 1938.</p> <p>Received } 21st Nov. 1938.</p> <p>Register</p> <p>Egypt and Sudan.</p>		<p>J</p>	<p>J 4311</p> <p>21 NOV 1938</p>
		<p>EGYPT and SUDAN</p>	
<p><u>Italian attitude as regards the Suez Canal.</u></p> <p>Refers to Rome telegram No. 274 Saving of 14th November, 1938, (J 4266/38/16). Transmits copies of a full summary of the article in the "Popolo d'Italia" of 13th November. In this article the author does not touch upon an argument used by Dr. Alberto Pirello in the paper presented to the Volta Conference. This paper suggested that a lower scale of charges would be in the interest of the Suez Canal Company as reductions in tariffs led to increased traffic and profits. Quotes Dr. Pirelli's recommendations. (Copy sent to Cairo).</p>			
<p>Last Paper.</p> <p>J 4266</p> <p>References.</p>		<p>(Minutes.)</p> <p>Clearly the Italians are not going to rest until they secure some representation on the Board of the Suez Canal Co., but it will be the French and not ourselves who will have to bear the brunt of the Italian attack.</p> <p>As far as a reduction in dues is concerned the Italians will find it harder to make out a case (see table annexed to J 4266 & The Cranleigh Bunticks' minutes thereon).</p>	
<p>(Print.)</p>			
<p>(How disposed of.)</p> <p>7.14. B. 38. } ✓</p> <p>Index. }</p> <p>with J 4266/38/16</p> <p>Nov. 28.</p>			
<p>(Action completed.)</p> <p>2.12.38</p>	<p>(Index.)</p> <p>906</p> <p>19/1/39</p>		
<p>Next Paper.</p> <p>J 4390</p>		<p>16757 3/38 F.O.P.</p> <p>Southey Dept. sec.</p> <p>? Copy with J 4266 to BOT & Tng. I. Wilson. 4/11</p> <p>Yes. /</p>	

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Yes.

^{proposal}
The ~~theory~~ of Dr. Pirelli that users of the Suez Canal should participate in its management in proportion to the profits which they bring to the Suez Canal Company is the sort of theory evolved by Fascists or Nazis to suit their own ends. However, in the present case it would not do the Italians very much good, as we should then be entitled to participate in the management of the Company to the extent of 47% whilst the Italian proportion would be 16%.

V. Gervais

23rd November 1938.

It looks as if the present objective of the Rome-Berlin axis is that Italy should be friendly with England and Germany with France - presumably with the double idea of separating England and France and maintaining a potential enemy for internal propaganda purposes in Germany and Italy respectively. If this is so, the Italians may be expected to stand firm about the Suez Canal. I rather agree with Signor Pirelli's statement within that the interests of our shipping practically cancel out the Treasury's interest in maintaining high profits in the Suez Canal; from the F.O. point of view the disagreeable feature is the possible introduction of an Italian director, with the danger of his getting information about our local arrangements for the protection of the Canal; if, however, this has to come, it will have to be got round in practice however improper the making of distinctions between company directors may be in theory.

Orkney

November 23rd, 1938.

Italy

Minutes.

180

Italy would find difficulty in finding the free device to buy shares, if possession of shares is what entitles the holder to a seat on the board: & therefore is more likely to prefer reduction in dues at the moment,

Edw. B. Upman

23/11

Last night Mr Harrison suggested, one of our shipping directors, told me the Marquis de Vogüé was very worried about the strategic dangers of an Italian director, but that he (Mr Hughes) thought this could be got round. Mr Ingrams point is consoling: but the Italians may intend to work for a change in the Statutes!

O'Kelly
24/11

Yes.

do 25 Nov

NOTHING TO BE WRITTEN IN THIS MARGIN.

20/22. 26-

No. 1032.
(265/21/38)

J 4311
21 NOV 1938

181
British Embassy,
ROME.
16th November, 1938.

My Lord,

With reference to my saving telegram No. 274 of November 14th, I have the honour to enclose a full summary of the article in the "Popolo d'Italia" of November 13th referred to therein.

2. In this article the author does not touch upon an argument used by Dr. Alberto Pirelli in the paper presented to the Volta Conference, to which he refers. This paper showed that reductions in canal tariffs had led to increased traffic and increased profits, and suggested that for this reason a lower scale of charges would be in the interest of the Company itself. For this reason, Dr. Pirelli said, it ought not to be impossible to find a basis of understanding that should safeguard the interests of all parties. Dr. Pirelli's solution, rather vaguely expressed, would be "an understanding between the "chief powers and the Canal Company, directed towards "assuring to the users of the Canal an equitable scale of "reduction of tariffs in relation to the development of "traffic or the amount of profits, and that at the same time, "or alternatively, there should be assured to the users a "participation (? in administration) proportional to the "profits which they bring to the Company."

3. I have sent a copy of this despatch to His Majesty's Representative at Cairo.
I have the honour to be, with great truth and respect,
My Lord,
Your Lordship's most obedient, humble Servant,

the Right Honourable
the Viscount Halifax, K.G.,
G.C.S.I., G.C.I.E.,
etc. etc. etc.
FOREIGN OFFICE.

Perk.

NOTHING TO BE WRITTEN IN THIS MARGIN.

"The Problem of Suez".

The writer, Signor Silvio Pozzani, begins by drawing attention to the fact that the question of commercial transport through the Suez Canal had been taken up at the recent Volta Congress, to which Dr. Alberto Pirelli submitted a long and interesting paper well illustrated by figures, facts and graphs.

2. Dr. Pirelli had explained it was natural that Italy should take a special interest in Suez Canal traffic since her occupation of Abyssinia, but it was also the fact that she had important traffic to the east and south of Italian East Africa, and, in fact, was second only to Great Britain in regard to tonnage using the Canal.

3. Signor Pozzani says it is well that people should understand what Italy's objectives really are in drawing attention to the Suez Canal question. There was no idea of wishing to modify the "politico-strategic" position of the Canal. This might be considered satisfactorily provided for by the International Convention of 1888, reaffirmed in the recent Anglo-Italian Agreements. But there was urgent necessity that the conditions should be revised and adapted to the necessities and possibilities of "the national economies most interested in the traffic through the Canal".

4. In other words the tariff policy hitherto adopted by the Canal Company might be considered with favour, and even with enthusiasm, by the shareholders who drew very high dividends; but it could not be regarded with equal pleasure by those using the Canal, who considered that the tariffs prevailing were excessively high in relation to the general level/

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183

- 2 -

level of freights.

5. Signor Pirelli draws attention to the fact that in 1936 expenses of administration, maintenance etc. amounted to 203 million francs, while the Company's receipts were 988 million francs. In 1937 these expenses were 303 million francs and receipts were 1,454 million francs and shares of a face value of 250 francs were quoted at 20,000 francs paper. In 1936 a dividend of 600 francs paper was paid, in 1938 the dividend rose to 820. These figures were sufficient to show that the Canal Company was scarcely fulfilling the function as "a public utility of an international character" which it claimed to carry out, for the difference between expenses and receipts proved that the Company was giving its services at too high a price. In the case of public utility companies a State saw to it that the profit-making energies of companies were restrained. The Canal Company, on the other hand, had no superior authority to moderate and discipline its activities.

6. Various causes had led to the Company, which had been meant to be international and "universal", being in practice only Franco-British. French capitalists held over 51% of the share capital and the British Government held 44% i.e., the shares of the Khedive which were bought in 1876. The administration was practically French, because, although the British Government was the largest shareholder, it had only ten representatives out of 32 on the Board of Administration. It was the French administrators who were the most obstinate defenders of the "particularistic" policy of the Company; they maintained that the exceptional dividends which the Company distributed were only a legitimate reward/

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184

- 3 -

reward for the confidence in the enterprise that had been shown by French investors. They did not take into consideration the fact that the original capital had been repaid to the shareholders, in gold francs, more than nine times over.

7. As regards the Company, England found herself in a special situation. As a shareholder, it was to her interest that the Company should follow the policy of high profits; as a sea-faring country which had the greatest share in the Canal traffic it was to her interest that the Company should adopt lower tariffs. One role practically balanced the other, so that England had no ^{direct} great/and immediate interest in advocating a modification of the Canal regime, although her shipowners from time to time pressed the question.

8. France, on the other hand, who had only a limited share in the Canal traffic, was interested in maintaining the present tariff. Egypt, on the contrary, had not succeeded in recovering her position as the sovereign state which granted the concession and that right to control of the tariffs which she might have been expected to exercise before she alienated her shares. So it was that the Company, vis-à-vis to the other states interested in the Canal traffic, took the position of a super-national body; and every attempt on the part of those powers to obtain the support of the Governments of France or of England for the modification of the tariffs, was met with the answer that the Canal Company was a private undertaking in which these Governments had no right to intervene.

9. It was time that this clever game of responsibilities came to an end. Italy, who in 1938 had contributed to the Canal Company over 175 million lire in tolls, was immediately/

- 4 -

immediately and definitely interested in a solution of the question. The only alternatives were these: either the Company submitted to a policy of reasonable tariffs and transformed its administration into something really international, or it would be necessary to secure a radical modification of the actual regime. All the states which took part in navigation through the Canal were in the same condition even England, in part. The only country which would suffer was France, because those who now received the greater part of the profits were citizens of France.

10. In this way the problem of Suez, from being an economic problem became a political problem, and joined the list of those questions of which the overriding interest of Europe as a whole counselled radical solutions at the cost of a sacrifice of private interests. Owing to the rigid discipline which Italy, in order to reach her autarkic goal, was imposing upon herself, the existing Suez Canal regime constituted a serious ~~obstacle~~ obstacle to her relations with her Empire, an obstacle which ought to be removed. For that reason the question of Suez was now placed upon the agenda by Fascist Italy. It would be well if those interested were to prepared themselves for rapid and necessary solutions.

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J	
EGYPT and SUDAN	
Registry Number } J 4390/38/16 FROM Sir M.P.A. Hankey (to Sir A. Cadogan) Confidential. dated 24th Nov. 1938 received 26th Nov. 1938 Registry } J: Egypt and Sudan	<u>Attitude of the Italian Government as regards the Suez Canal.</u> Transmits in original a letter dated 23rd November 1938 from M. Michel Homolle, the Secretary General of the Suez Canal Company, covering a memorandum containing comments on the statements made in the Italian press on the subject of the Suez Canal. Draws attention to the explanation of the purpose for which the arguments in the note were submitted. Suggests that he and Sir Ian Malcolm should discuss the matter with Mr. Cavendish-Bentinck or Mr. Kelly before 5th December. Suggests that the memorandum should be printed, and asks for the return of the original documents by 2nd December.
Last Paper. J 4311	See within letter of 24 th Nov, 1938, from Sir M. Hankey to Mr. Jebb.
References.	<p>I have taken copies of the letter from the Secretary General of the Suez Canal Company enclosed in Sir M. Hankey's letter. I submit within this jacket a copy of the note which was prepared for use by the Prime Minister and the Secretary of State if the question of Italian representation on the Board of the Suez Canal Company was discussed during their recent visit to Paris. I understand that this question was discussed in Paris last week and that while the French expressed distaste at the idea of Italian representation on the Board of the Company no definite conclusion was reached.</p> <p>At any rate I presume that an undertaking by the French Government to urge the chairman and French members of the Board of the Suez Canal Company that the next French vacancy on that Board should be given to an Italian national would only form part of a general Franco-Italian agreement. As regards the Italian request for a reduction in the dues of the Suez Canal Company there is one point which is not mentioned</p>
(Print.) PRINTED Suez Canal - B. Letter M. Homolle with enclosure (How disposed of?) Of Sir M. Hankey from Mr. Jebb. Nov. 25 7.14. T.M. } Dec. 6 B. of. } Cadogan } (Write record of conversation in J 4440/73/16.) 7.9. Paris No. 2737 Rome No. 1744 Dec 6 Cairo No. 1477 (Write record of conversation in J 4440/73/16) (Action completed.) 23.2.39 (Index)	in/ 16757 3/38 F.O.P.
Next Paper. J 4451 J 4440/73/16.	

Minutes.

187

Copies to Treasury, B. of T., Admiralty,
Paris, Rome and Cairo with copies
of record of conversation in J. 4440.
Print letter from Mr. Hamilton with
memo. enclosed. May Canal B. and
distribute to all directors.
✓
2. m.

Let within letter of 21st Dec. from
Mr. Harrison Hughes - 12 Aug 1940

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(d)
Dec 19
copy to:
Dec 21

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Minutes.

EXTRACT FROM THE "FINANCIAL TIMES" 188
DATED NOVEMBER 25th, 1938.

INDEXED

Financial Times
25 NOV 1938

Cutting dated 193

SUEZ CANAL AND THE ITALIAN CLAIMS

BOARD MEMBERSHIP FROM OUR OWN CORRESPONDENT

PARIS, 24th Nov.

The Italian claims in regard to the Suez Canal are the subject of a statement apparently inspired by the company and published by the "Agence Economique et Financiere" to-day.

Examining the question whether any Italian claims justify the recent weakness in the company's shares, the statement points out that Italy's demands only aimed at participating in the management of the company by obtaining some seats on the Board of Directors, and that it is hard to see in what way this would prejudice the future of the company.

CAPITAL INTEREST

When the company's capital was raised, the statement observes, France subscribed for over 208,000 shares, while Italy only took 2,719. Other countries' subscriptions were hardly greater, and it was only as a result of the action of the then Viceroy of Egypt in taking up the unsubscribed capital that the company could be got under way. This holding was later purchased by Great Britain.

The statutes provide that the Board shall be drawn from the nations interested in the enterprise, but clearly this means the countries which subscribed the capital necessary for the construction of the Canal, and not countries whom the Canal might later serve.

If Italy's desire is to have rates reduced it should be remembered that she seems less justified than any other nation in considering the tariffs too heavy. For a ship going from Great Britain to Australia the Canal reduces the journey by about one-tenth, but for ships from Italy to Ethiopia the voyage is cut by about four-fifths.

The allegation that tariffs are prohibitive is refuted by the rapidity with which trade between Europe and the Far East has developed since the creation of the Canal.

The company's policy has always been to reduce its rates whenever possible. Since 1921 they have been progressively decreased from 8s to 6s and they will again be reduced to 5s 9d on 15th December. The existing tariff is already much below half the maximum the company is entitled to charge.

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*Note prepared for use by the
Prime Minister and S. of 189
Paris.
Entered 8/152/16
1937*

POSSIBLE REQUEST BY THE ITALIAN GOVERNMENT FOR THE
NOMINATION OF AN ITALIAN DIRECTOR TO THE BOARD OF
THE SUZ CANAL COMPANY.

The Board of the Suez Canal Company consists of 32 directors of whom 19 are French, 10 British, 2 Egyptian and 1 Dutch. Between 1899 and 1915 there was a German director, but after the war the German director was replaced by a French citizen.

2. We have received no official request from the Italian Government for the appointment of an Italian national to the Board of the Company since 1920. In reply to the request which was then made, the late Sir E. Cross wrote to the Italian Ambassador that the appointment of an Italian national to the place formerly occupied by a German on the Board of the Suez Canal Company was a matter entirely for the directors themselves to decide and that H.M.G. could not properly undertake to support any particular candidate. We have reason to believe, however, that the Italian Government are anxious that at least one Italian national should be elected to the Board of the Company partly for purposes of prestige and partly in the hope that he will be able to obtain a reduction in the dues. In the spring of this year Sir Thomas Royden, one of the British non-official directors on the Board of the Company, was approached privately by Signor Cosulich of the Italian Cosulich line with an enquiry as to whether it would be opportune for the candidature of an Italian national to be put forward for one of the directorships of the Suez Canal Company that were then vacant. Sir T. Royden consulted the chairman of the Company and replied to Signor Cosulich in the negative.

3. Italian claims for a directorship on the Board of the Suez Canal Company could be based on the fact that Italian shipping passing through the Canal now ranks immediately after, though a long

way.....

way behind, the British flag (in the first six months of 1938 British tonnage passing through the Suez Canal amounted to 8,458,000 tons, whilst Italian tonnage was 2,352,000 tons) and that the Suez Canal is a link between Italian East Africa and Italy; consequently, Italy can show as good a claim to representation on the Board of the Suez Canal Company as the Netherlands whose tonnage passing through the Suez Canal in the first six months of 1938 amounted to 1,488,000 tons. When a Netherland citizen, M. Anslin, was first elected to the Board of the Company in 1884 his appointment was regarded as a concession to Netherlands shipping interests. It is clear from the discussions regarding the election of directors which took place between 1884 and 1899, that the comparative importance of the shipping of the country to which these nationals belong was taken into consideration; but the Board of the Company regard themselves as entirely free to nominate whoever they think best to vacant directorships.

4. The German Ambassador in Paris has recently twice approached the chairman of the Board of the Suez Canal Company with a request that a German national should be elected to that Board. The Marquis de Vogue avoided returning any definite reply to this request.

5. After consulting the Admiralty, Treasury and Board of Trade, our view is that we should hold out and delay the admission of an Italian and later a German to the Board of the Suez Canal Company as long as possible and that whilst we might eventually be willing to support a request for an Italian director we should certainly have to consult both the French and Egyptian Governments before taking a decision and that such consultations should not be initiated before a definite Italian request is received on this subject.

6. As regards the Italian desire for a reduction in the dues of the Suez Canal Company these will have been reduced between July 1935 and December 15th next from 7/6 to 5/9 per ton for vessels.....

191

vessels with cargo, 5/9 to 2/10^{for} for vessels in ballast and from 12/10⁴ to 5/9 per passenger. The French directors have always been rather reluctant to approve reductions in the dues, while the three British official directors have generally maintained a neutral attitude as on the one hand the Treasury are anxious to see as high a dividend as possible received from the stock held by H.M.C. in the Suez Canal Company whilst the Board of Trade support the desire of the British shipowners for reduced dues.

7. According to secret information which we have received, the Italian Government may put forward a request to the French Government that the Statutes of the Company should be altered with a view to enabling them to have a voice in the management. Normally this could only be done by a general meeting of the shareholders. We understand that practically no shares of the Company are held either in Italy or Germany, though a report has been received that the Italian Government have recently been trying to buy up some bearer shares. The amount which they could purchase, would, however, be negligible and would not give them a real voice, though their idea may possibly be to divide the shares that they purchase into lots of 250 amongst various Italian nominees who would attend a general meeting of the Company and would thus each have 10 votes (25 shares give the right to one vote, but no one may have more than 10 votes either as a shareholder or as proxy). It is unlikely that this idea would prove practicable.

8. If the Italian Government approach the French Government regarding the Suez Canal Company, they will probably reply that the Company is a commercial concern which happens to be registered in Paris and that they cannot dictate its actions. Later on, however, if they wish to please the Italians they might suggest to the chairman of the Company that the next ^{French} vacancy on the Board should be given to an Italian national. If the Italian Government were to approach us, I would suggest that we should reply that we are also

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192

4.

in an unfavourable position as there are only 10 British directors whilst British shipping accounted in 1937 for 47.26% of the total traffic passing through the Suez Canal and H.M.C. own 44% of the shares whilst a further 15% are understood to be held in this country.

9. A request from the German Government would seem far less justified as German shipping ranked third for the first six months of 1938 (i.e. immediately after Italian and just above Dutch shipping) and the Suez Canal Company does not form a link between Germany and any overseas possessions.

FOREIGN OFFICE,

November 18th, 1938.

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TELEPHONE
14 LIMPSFIELD COURT.
INDEXED

HIGHSTEAD, 192A
PAIN'S HILL,
LIMPSFIELD.
24 November, 1938

My dear Jebb,

As Cadogan is not back yet, to save time
I am addressing this letter to you and sending it
by the hand of Henry. It is possible that you
and Bentinck may think it worth while to have
the enclosures reproduced in some form as a
preliminary step, which would enable me to have
them back before I go to Paris at the end of
next week. You will notice also that I have
suggested that Cadogan or Bentinck might possibly
like to see me and Ian Malcolm (if he has not
left for Paris) next week - possibly Wednesday.

Your's ever

m.p.a. Hankey

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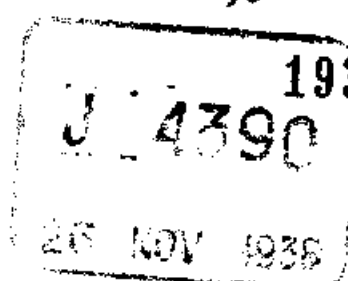
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Confidential,

Highstead
Limsfield
Surrey



24 November, 1936

My dear Alee,

I enclose in the original a letter from M. Michel Bonolle, the Secretary General of the Suez Canal Company, covering a Memorandum containing comments on the statements made in the Italian press on the subject of the Suez Canal.

You will see that I am asked to forward the Memorandum to the Foreign Office, and I will draw your attention in particular to the last paragraph in which it is stated that the arguments in the note are intended, not so much to enable His Majesty's Government to refute the Italian thesis as to oppose to the eventual Italian claims "une fin de non-recevoir categorique."

Perhaps it would be as well if Ian Malcolm (if he is available) and I could see you or Cavendish Bentinck on the subject before the next meeting of the Suez Canal Board on December 5th.

Wednesday, November 30th, either before noon or after 4 p.m. would be a convenient day for me, as I shall be in Town in any event, but alternatively I could come up some other day.

I have no means here for reproducing the letter and

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194

Memorandum; but it has occurred to me that possibly you may think it worth while to put them into the Confidential print. If so we should like to have a few copies for the Paris Office and to show confidentially to one or two of our colleagues.

In any event I should be glad to have the originals back not later than Friday, December 2nd.

Yours ever

The Hon. Sir Alexander Cadogan, K.C.M.G., C.L.
Permanent Under-Secretary of State

Foreign Office

M.P. A. Hankey

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1938

J

J 4451

2 DEC 208

EGYPT and SUDAN

Registry Number } J 4451/38/16

FROM Sir Ian Malcolm, (Paris).

No. 58 Commercial Confidential.

30th Nov: 1938

Registry } 2nd Dec: 1938

: Egypt and Sudan

Attitude of the Italian Government as regards the Suez Canal Company.

Transmits copies of (1) letter of 10th November, 1938, from M. Edgar-Bonnet (Suez Canal Company) to Sir M. Hankey asking for information with regard to any approaches which may have been made by the Italian Government to His Majesty's Government on the subject of the Suez Canal, (2) Note addressed to Sir M. Hankey by the Suez Canal Company on the questions of (a) Italian representation on the Board of the Company and (b) preferential reduction in rates in favour of Italian traffic through the Canal.

Last Paper.

4390

(Minutes.)

References.

(Print.)

(How disposed of.)

Sir Ian Malcolm's preoccupation with the Suez Canal files both of the F.O. and of his own office in Paris has apparently not ~~induced~~ ^{led} him to send us copies of all the relevant documents in this recent exchange of correspondence between the Suez Canal Company and Sir Maurice Hankey. The opening letter, enclosed within, dated the 10th November, requests information as to the exact demands, if any, which have been made by the Italian Government to H.M.G. regarding the Suez Canal. Sir M. Hankey appears to have replied on the 15th November, though we have not received a copy of this letter. Finally, the Secretary-General wrote to Sir M. Hankey again on the 23rd November, thanking him for his letter of the 15th November and enclosing a memorandum dealing with the Italian claims, both to representation on the Board of the Company and to a reduction in the level of dues (J 4390).

M. Homolle's letter and enclosure are already being printed separately/in order that our files should be complete I would suggest that a letter might go to

16757 3438 F.O.P.

Sir /

Action completed.)

(Index.)

5.1.39

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Next Paper.

J4499

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Sir Ian Malcolm on the lines of the annexed draft.

In view of the distribution of M. Homolle's letter on J 4390 I do not think the despatch within requires any distribution at all.

I. Wilson Young

6th December 1936.

Spd I have explained to Mr. Wilson Young that it is preferable to take no action on this.

*WJ
6/XM.*

Th

J4

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209

From Sir Ian Malcolm

10, AVENUE D'ÉNA, PARIS (XVI^e ARR)
TEL. : PARCY 98-84

J 4451
2 DEC 1978

CONFIDENTIAL:

November 30, 1938.

SUEZ CANAL,
Commercial No. 58.

Sir,

I have the honour to enclose two communications from the Suez Canal Company on the subject of the recent information, true or otherwise, which has recently appeared in the Italian Press (and has been widely copied by the Press of other nations), on the subjects of :-

- a). An Italian representative on the Suez Canal Board, and
- b). On the subject of a preferential reduction of rates, in favour of Italian traffic passing through the Canal.

These documents may have reached you already from my colleague, Sir Maurice Hankey, to whom they were originally addressed instead of to me. Nevertheless, I think it best to send them forward in the ordinary official way, so that they may appear in the Suez Canal files both of the Foreign Office and of my office in Paris.

I have the honour to be,

Sir,

Your obedient Servant

Ian Malcolm

The Under-Secretary of State
for Foreign Affairs,
Foreign Office.

J4517

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Cie. du Canal de Suez, **210**
Le Directeur Général,
Paris le 10 novembre 1938.

Cher Sir Maurice,

Vous avez certainement eu connaissance des "exigences" que de nombreux organes de presse, en Angleterre et ailleurs, prêtent à l'Italie en ce qui concerne le Canal de Suez. Je ne doute pas que les rumeurs ainsi répandues ne soient en grande partie ranta-sistes; mais nous avons eu ici trop de conversations avec des Italiens qualifiés pour douter qu'elles n'aient un certain ronds de vérité.

Il va sans dire que l'Italie ne peut rien contre la Compagnie du Canal de Suez, à moins qu'elle ne soit soutenue par le Gouvernement britannique, et une telle hypothèse nous apparaît comme exclue. Mais il nous serait extrêmement utile d'être renseignés, avec autant de précision que possible, sur les demandes exactes - s'il y en a - faites par le Gouvernement italien au Gouvernement britannique concernant le Canal de Suez. Si vous étiez en mesure d'obtenir ces renseignements, vous rendriez à la Compagnie un très signalé service dont nous vous serions tous reconnaissants.

J'ai eu grand plaisir, comme je l'aurai toujours, à causer l'autre jour avec vous de nos affaires, et je vous prie de me croire, cher Sir Maurice, votre bien sincèrement dévoué,

(Signé) G. Edgar-Bonnet.

Sir Maurice Hankey, G.C.B., G.C.M.G., G.C.V.O.

J4517.

16757 3/38 F.O.P.

Copie

211

N O T E

Les revendications formulées par la presse italienne au sujet du Canal de Suez ont trait, d'une part, à l'administration de la Compagnie et, d'autre part, aux tarifs de transit. Il s'y ajoutait, au début de l'année, des demandes concernant la participation italienne à la défense du Canal et au contrôle de la liberté du transit, mais cette question n'a pas été soulevée depuis lors.

Pour ce qui est de l'administration du Canal, les journaux italiens estiment que leur pays devrait être représenté dans le Conseil d'Administration. Ils font état d'un article des statuts qui stipule que les Administrateurs seront choisis parmi les nations "intéressées à l'entreprise"; mais il ne fait aucun doute que, dans l'esprit des rédacteurs des statuts en 1856, il fallait entendre par là les nations ayant pris des intérêts dans l'entreprise, c'est-à-dire ayant fourni les capitaux nécessaires à la construction du Canal. Or, au moment de l'émission des actions de la Compagnie, en 1858, sur un total de 400,000 actions émises, alors que 208,000 environ étaient souscrites par la France, l'Italie n'en prenait que 2,719. Les autres puissances n'en prenaient d'ailleurs guère davantage, contrairement au vœu de Ferdinand de Lesseps qui avait rêvé de constituer une "Compagnie universelle".

Ainsi, les capitaux français étaient les seuls à accepter de courir les risques de l'entreprise et si, néanmoins, la Compagnie a pu être constituée, c'est parce que le vice-roi d'Egypte - faisant confiance au génial fondateur de la Compagnie - accepta de prendre à sa charge toutes les actions qui n'avaient pas été souscrites.

J4517.

-2-

212

Si la répartition internationale du capital s'est trouvée depuis lors modifiée en ce qui concerne l'Angleterre, il n'en est pas de même pour l'Italie. Autant qu'on en peut juger, il n'y a à l'heure actuelle entre des mains italiennes qu'un nombre insignifiant d'actions de la Compagnie. Il serait, dans ces conditions, difficile de justifier, au regard de l'Assemblée Générale - seule qualifiée pour statuer à ce sujet, et composée à peu près exclusivement de Français - la nomination d'Administrateurs italiens.

En supposant d'ailleurs que cette nomination puisse se justifier, la question se poserait de savoir quels seraient les sièges attribués aux nouveaux Administrateurs. Lors de l'introduction dans le Conseil de deux Administrateurs égyptiens, les sièges attribués à ceux-ci ont été prélevés sur le contingent français, et il ne paraît guère possible d'envisager une nouvelle réduction de ce contingent.

Aussi bien, semble-t-il que la question qui préoccupe essentiellement l'Italie soit bien plus la question des tarifs que celle de la participation à la gestion; et peut-être ne voit-elle dans celle-ci qu'un moyen de faciliter le succès de ses vues touchant la première question.

Les journaux italiens se plaignent amèrement de la lourde charge que le Canal impose au commerce entre la métropole et son empire d'Ethiopie. Ils fournissent d'ailleurs à cet égard des chiffres erronés, quand ils prétendent par exemple que l'Italie a fourni en 1937 1/4 des recettes de la Compagnie, alors qu'elle n'en a fourni en réalité que 16%, et en fournira moins encore en 1938 (environ 13%).

Quant aux tarifs, on peut tout d'abord observer que l'Italie paraît moins fondée que toute autre puissance à se plaindre de leur élévation, car c'est bien pour le commerce entre l'Italie et l'Ethiopie que le service rendu par le Canal présente le plus de

J4517

16757 3/38 F.O.P.

-3-

213

valeur. Si, en effet, la réduction de la durée du trajet que le Canal procure à un navire se rendant d'Angleterre en Australie n'atteint guère que 10%, cette réduction est de plus des trois-quarts pour le trajet Naples-Massacua; et, si les actes de concession de la Compagnie ne lui imposaient pas d'appliquer à tous les navires le même tarif, il est certain que la Compagnie serait fondée à percevoir des droits plus élevés dans le second cas que dans le premier.

Mais la presse italienne prétend que les tarifs du Canal constituent une entrave au commerce international. Il suffit, semble-t-il, pour réfuter cette assertion de constater le prodigieux développement qu'a pris depuis la création du Canal et jusqu'en ces dernières années, le commerce maritime entre l'Europe et l'Extrême-Orient. Le tonnage passé au Canal en 1937 représente 80 % de plus que celui de 1912, meilleure année d'avant-guerre.

Les droits de transit ne pourraient d'ailleurs constituer une gêne pour le commerce que s'ils grevaient dans des proportions appréciables le prix des produits transportés. Or, pour la plupart des marchandises pour lesquelles il est possible de faire, à cet égard, un calcul exact, on constate que le droit de transit du Canal n'entre que pour 2 ou 3% dans le prix de la marchandise rendue à destination. Si, pour quelques rares produits, cette proportion s'élève un peu plus, c'est qu'il s'agit de produits présentant, sous un même volume, une très faible valeur.

Mais, d'ailleurs, la Compagnie n'a pas attendu que l'Italie s'intéressât aux tarifs du Canal pour entreprendre de les alléger. Depuis plus de 50 ans, sa politique a été de toujours profiter du développement du trafic pour diminuer la charge que constituent pour les compagnies de navigation - et, partant, pour le commerce - les droits du Canal. C'est ainsi que depuis 1921,

J4517

le tarif des navires chargés, exprimé en monnaie anglaise, a été abaissé de 8/9 par tonne à 6/- - et cela, malgré la dépréciation, survenue entre temps, de la monnaie anglaise. Il va être encore abaissé à nouveau, le 15 décembre, et ramené à 5/9.

Il importe de souligner que, depuis deux ans, la Compagnie a poursuivi sa politique d'abaissement des droits, malgré une diminution de la valeur réelle de ses dividendes, qui est passée de E.7.4.0 pour l'exercice 1935 à E.4.19.0 pour l'exercice 1937.

Le tarif actuel est d'ailleurs inférieur de plus de moitié au tarif maximum que la Compagnie serait en droit de percevoir en vertu de son acte de concession et de ses accords avec le Gouvernement égyptien, et qui équivaut actuellement à 13 ou 14 shillings.

On ne saurait vraiment soutenir, dans ces conditions, que la Compagnie a exploité le privilège dont elle jouit dans un esprit strictement mercantile et avec le seul objectif de réaliser, aux dépens du commerce mondial, les plus hauts profits.

L'examen des cours des actions de la Compagnie en fournissait - s'il en était besoin - une nouvelle preuve. Evalués en sterling, ces cours se retrouvent, en effet, aujourd'hui au niveau de 1926, soit à 6% seulement au-dessus de leur valeur en 1913.

La Compagnie n'a aucune intention de s'écarter de sa politique libérale en matière de tarifs, - politique qui lui paraît concilier dans une juste harmonie les besoins du commerce mondial et les légitimes intérêts des actionnaires qui ont assumé les risques financiers de l'entreprise, - politique qui, non seulement a reçu l'approbation des actionnaires, mais semble avoir donné satisfaction jusqu'ici aux nombreuses nations qui, pendant plus de 60 ans, ont joué dans le trafic du Canal un rôle plus important que celui de l'Italie, et spécialement à celle qui se trouve être à la fois - et de beaucoup - le premier client et le premier actionnaire de la Compagnie. On voit mal à quel titre

J4517.

l'Italie qui, comme nous l'avons rappelé, ne possède aucune fraction appréciable du capital social et n'occupe que depuis 1935 le second rang dans le trafic du Canal, pourrait formuler plus d'exigences que les autres.

Mais - à en croire certains journaux - il n'y aurait pas à se préoccuper de questions de droit ou de questions de forme. Si la Compagnie ne s'inclinait pas, si elle n'acceptait pas l'internationalisation de son administration et l'abaissement massif de ses tarifs, il n'y aurait qu'à substituer à elle un organisme international groupant les Etats les plus intéressés à l'usage du Canal, et qui répartirait entre eux les bénéfices réalisés au prorata des sommes payées par chacun.

Il n'est pas besoin, semble-t-il, de prendre trop au sérieux des suggestions de ce genre, qui ne peuvent refléter que l'imagination de journalistes mal informés. Il suffit de rappeler que la Compagnie - société égyptienne - tient ses droits comme ses charges de la concession octroyée à son fondateur par le vice-roi d'Egypte, en 1856, et que, sauf le cas où la Compagnie ne remplirait pas les clauses de cette concession, elle ne saurait en être déclarée déchue. Quand une entreprise - due à des initiatives privées - a été réalisée par des capitalistes qui, en échange des droits qui leur étaient garantis, ont accepté de courir certains risques - et l'histoire de la Compagnie prouve que ces risques n'étaient nullement chimériques - il serait, à la vérité, trop commode d'en déposséder les véritables propriétaires pour faire don de leur oeuvre à ceux à qui elle rend service.

En la circonstance, cette dépossession serait aussi contraire aux intérêts de la puissance concédante que du concessionnaire. Même en supposant qu'une part fût faite à l'Egypte dans l'organisme international chargé d'assurer l'exploitation du Canal, il n'est peu probable, étant donné les réductions de tarif auxquelles procéderait immédiatement cet organisme, que l'Egypte

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-6-

216

retire du Canal une somme équivalente à celle que lui procure actuellement son accord avec la Compagnie (LE.300,000), augmentée de la somme à peu près équivalente que vont représenter, à partir de l'année prochaine, les impôts qu'elle percevra sur l'activité de la Compagnie.

Novembre 1938.

J4517.

16757 3/33 F.O.P.

J 4517

8 DEC 1938

*80

EGYPTIAN

P.M.

Parliamentary Question.

221

*80. Lieutenant-Commander Fletcher, — To ask the Prime Minister, what recent communications have taken place with the Italian Government regarding matters concerned with the administration of the Suez Canal; and if these will be discussed during the forthcoming visit to Rome. [Tuesday 6th December.] †

See by P.M.

ANSWERED — DEC 1938.
REPLY ATTACHED.

From articles in the Italian press and from various intimations received through unofficial sources we have for some time been aware of the Italian Government's desire to secure representation on the Board of the Suez Canal Company and also to obtain a reduction in the level of the dues. According to secret information which we have received the Italian Government may put forward a request to the French Government that the Statutes of the Company should be altered with a view to enabling them to have a voice in the management, though normally this could only be done by a general meeting of the shareholders.

As regards the present question we should, I submit, reply that no such communications have recently taken place and that no statement can be made regarding the matters to be discussed during the Prime Minister's visit to Rome.

I submit draft reply herewith in which the concurrence of the Board of Trade and Treasury should, I think, be obtained.

Southern Department.

Quint
30th

I. Wilson Young

November 30th, 1938

The Treasury and B. of T. concur in main reply. R. Connelley
20.11

Suez/

100%

222

DRAFT REPLY.

No such communications have taken place.

As I have already said, I am not prepared to make any statement regarding the matters which may be discussed during my visit to Rome.

*Approved by
P.M.
(P.M. will take)*

NOTHING TO BE WRITTEN IN THIS MARGIN.

Suez/

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223

DRAFT REPLY.

*61 Lt.Cmdr.Fletcher
Tuesday, Dec. 6th.

No such communications have taken place.
As I have already stated, said,
[as regards the second part of the question] I am
not prepared
[unable] to make any statement *regarding* ~~concerning~~ the
matters which may be discussed during my visit
to Rome.

ReB
57xii

NOTHING TO BE WRITTEN IN THIS MARGIN.

NOTHING TO BE WRITTEN IN THIS MARGIN.

Suez/

224

SUEZ CANAL.

80. **Lieut.-Commander Fletcher** asked the Prime Minister what recent communications have taken place with the Italian Government regarding matters concerned with the administration of the Suez Canal; and whether these will be discussed during the forthcoming visit to Rome?

The Prime Minister: No such communications have taken place. As I have already said, I am not prepared to make any statement regarding the matters which may be discussed during my visit to Rome.

Lieut.-Commander Fletcher: Will the right hon. Gentleman give an undertaking that he will agree to no changes in the administration of the Suez Canal except after consultation with the French Government and after debate in this House?

The Prime Minister: I do not think I am called upon to give any such undertakings. It would be a natural thing to consult the French Government if any such proposals were made.

Lieut.-Commander Fletcher: After debate in this House?

DEC 1935

Suez/

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<div style="text-align: center; font-size: 2em; font-weight: bold;">J</div>		<div style="border: 1px solid black; padding: 5px; text-align: center;"> J 4599 225 14 DEC 1938 </div>	
		<div style="display: flex; justify-content: space-between;"> 1938 EGYPT and SUDAN </div>	
<p>Registry Number } 4599/38/16.</p> <p>TELEGRAM FROM Sir M. Lampson, Cairo.</p> <p>Decypher dated 13th Dec. 1938.</p> <p>Received Registry } 14th Dec. 1938</p> <p>: Egypt and Sudan.</p>		<p><u>Position of Egypt in regard to negotiations arising from any Italian proposal concerning the Suez Canal.</u></p> <p>Has received note from Egyptian Minister for Foreign Affairs in reference to reported statement by Prime Minister in Parliament that His Majesty's Government intended to consult with French Government if approached by Italian Government in regard to modification of administration of Suez Canal. Note maintains that such proposals primarily interest Egypt. Egyptian Government claim that they should be associated equally with French Government in negotiations regarding any Italian proposal, and hope that His Majesty's Government will complete Prime Minister's statement in this sense. Asks to be informed of text of statement made by Prime Minister.</p>	
<p>Last Paper.</p> <p style="font-size: 1.5em;">J4517</p>		<p style="text-align: center;">(Minutes.)</p> <p style="font-size: 1.2em;">A copy of the text of the P.M.'s statement - was sent to Cairo by air bag yesterday (J4517). We should perhaps nevertheless send Sir M. Lampson a brief tel. on lines of annexed draft.</p> <p style="font-size: 1.2em;">Consideration of the text of the tel. can await our receipt of the text of the Egyptian note.</p> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="text-align: center;"> <p><i>M. G. G. a. a.</i></p> </div> <div style="text-align: center;"> <p><i>I. Wilson Young</i></p> <p>14/12</p> </div> </div>	
<p>References.</p> <p>J4517/38/16.</p>			
<p>(Print.)</p>			
<p>(How disposed of.)</p> <p>Tel. Cairo no. 649 Dec. 15.</p> <p>Y. 14. T. 14. B. 14. Adm. Secy. Correspondence Dec. 15</p> <p>File of inward tel. at 5 AM. 14.10 J4726/38/14.</p>			
<p>Action completed.)</p> <p>0.1.39.</p>		<p>(Index.)</p> <p style="font-size: 1.5em;">M 31</p>	
<p>Next Paper.</p> <p>J4604</p>		<p>According to reports that have appeared in the "Manchester Guardian" and "Evening Standard" the Egyptian Minister in Berlin called yesterday on Herr von Ribbentrop and expressed the views of his Government regarding any negotiations that may take place ^{respecting} regarding the management and status of the</p> <p style="text-align: center;">15741 9/37 F.O.P.</p> <p style="text-align: right;">Suez/</p>	

Suez Canal. The "Manchester Guardian" also reports that a statement to the same effect was made yesterday by Mohamed Mahmoud Pasha to the Italian Minister in Cairo. The Egyptian Government have recently shown an ever increasing desire to be associated in the management of the Suez Canal Company on whose board they now have two directors. An arrangement was concluded a couple of years ago by which the Canal Company ^{now} pays the Egyptian Government £300,000 a year. The Egyptian Government have certainly no desire to see the Canal dues reduced to an artificial level. *Draft reply to Cairo submitted herewith embodying the P.M.'s statement.*

R. Cunningham

December 14th, 1938.

*Sanitary Dept.
14/12/38*

No. 14 DEC

In any case if the statutes of the Canal Co. were amended the Egyptian Govt would have to agree as only Egyptian legislation can modify them. In fact this is certainly a matter (whether amendment of statutes is under discussion or not) where it is our duty to discuss with the Egyptian Govt.

W. R. Beckett 16/12

*Sum
14/12
6/1*

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From: EGYPT.

Decypher. Sir M. Lampson, (Cairo).

December 13th, 1938.

D. 11.58.a.m. December 14th, 1938.

R. 11.10.a.m. December 14th, 1938.

No. 668.

-----oOo-----

I have just received note from Minister for Foreign Affairs in reference to reported statement by the Prime Minister in Parliament on December 6th that His Majesty's Government intended to consult with the French Government if approached by the Italian Government in regard to modification of administration of the Suez Canal.

2. Note maintains that any such proposals primarily interest Egypt as (1) the territorial power, (2) the authority which granted the Canal concession, and (3) ultimate successor to Canal Company. Egyptian Government claim that they should be associated equally with the French Government in any negotiations regarding any Italian proposals and hope that His Majesty's Government will find the opportunity to complete Prime Minister's statement in the sense of associating Egypt in such negotiations.

3. Text of note follows by air mail: it would be helpful if I might be informed of text of any statement made by Prime Minister.

DEC 14 1938
F.O. REGISTRY

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227

(J.4599/38/16). **OUT FILE**

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Code telegram to Sir M. Lampson (Cairo).

Foreign Office, December 15th 1938. 5.00 p.m.

No. 649. (R).

Your telegram No. 868 [of 13th December. Suez Canal].

In reply to supplementary question on December 6th, Prime Minister stated that he did not think he was called upon to give any undertaking that he would agree to no changes in administration of the Suez Canal except after consultation with French Government and after debate in the House: the Prime Minister added, however, that it would be a natural thing to consult the French Government if any such proposals were made.

Text was sent to you by air bag 13th December.

J 4606

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119

C

1938

EGYPT AND SUDAN

J 4604

223

14 DEC 1938

Registry
Number

J 4604/38/16
TELEGRAM FROM
G. Ogilvie-
Forbes, Berlin.
621 Saving
en clair
12th
Dec: 1938
Registry 14th

J : Egypt and Sudan

German press comments on Italian attitude as regards Suez Canal.

Refers to Berlin telegram No. 606 Saving (R 9857/240/22). Prominence has been given in several German newspapers to excerpts of Signor Gayda's article in the "Giornale d'Italia" demanding a revision of the Suez Canal Statutes. The article is represented as claiming a radical and speedy revision of the entire administration of the Canal. Gives the substance of an article published in the "Völkischer Beobachter".
(Repeated to Paris and Rome).

Last Paper.

J 4599

References.

(Print.)

(How disposed of.)

Copy sent to B. G. J.
Tracy & Co. Ltd.
on J 4606/38/16
of Berlin Chamber
Dec. 20
x. a. Paris No. 2572
Rome No. 1796
Cairo No. 1541
Dec. 21.
(over.)

Action
completed.)

13.1.39.

(Index.)

J 4606

Next Paper.

J 4606

(Minutes.)

Please see also J 4606 and the annexed cutting from the "Manchester Guardian" summarising the article in the "Völkischer Beobachter" of which only a garbled version is contained in the telegram.

The contention that 50% of the receipts of the Suez Canal Company serve to cover its entire cost so that about 70% is available as profits, is approximately correct. The total expenses in the year 1937 amounted to 508 million francs, while the total receipts were 1,448 million francs. The article naturally fails to point out, however, that since 1936 dividends expressed in sterling have fallen from £6 10s. 5d. to £4 11s. 3d. and that dues have fallen since the 1st January, 1934, from 7/6 to 5/9 per ton. The argument that the statutes of the Company are being violated so long as the Company remains predominantly Franco-British, does not, I think, bear examination; it would appear to be based on the fact that the original Act of Concession of 1854 gave M. de Lesseps the exclusive right to constitute and direct

une....

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"une compagnie universelle" and Article 2 of the statutes subjects the aims of the Company to the clauses and conditions of the original Concession.

~~Copy sent to Cairo under cover of a letter to the Chancery~~ in ~~annexed~~ draft.

Southern department.

The Burkett 11/17/38

WGB 12

L. Wilson, Young

December 16th, 1938.

The international spirit shown by the Italian Government whenever they want to get in somewhere as compared with their extreme nationalism in other respects is rather comic.

As our control of the Suez Canal enables us to cut off communications between Italy and East Africa immediately on the outbreak of war the Italian Government are naturally seeking for some means of preventing this. The proposal to "internationalise" the Suez Canal (is probably actuated by an arrière pensée that if and when the Canal is under international control our raison d'être in Egypt will cease and then if Italy can keep some measure of command of the sea in the Eastern Mediterranean and in the Red Sea, her communications with East Africa can be maintained.

I am preparing a memorandum on the question of Italian desiderata as regards the Suez Canal for use if required by the Secretary of State when he goes to Rome next month. I will annex to this memorandum a copy of the statement prepared by the Treasury at our request showing the gradual reduction in the dues and in the dividend (on a sterling basis).

Copies of this telegram should go to the Admiralty, Treasury and B. of T.

V. Cavendish

December 16th, 1938.

This will be most useful

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H. 18/12
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Minutes.

See letter to Channing, ²²³
 Berlin, 17th Dec. a reply
 of Dec 28th

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Minutes.

INDEXED.

230

EXTRACT FROM "MANCHESTER GUARDIAN"

DATED DECEMBER 13th, 1938

Manchester Guardian *K*

Cutting dated 13 DEC 1938 193

News from Abroad

CLAIMS TO THE SUEZ CANAL

Germany, Italy, and Japan All Should
Have Share

ARGUMENTS OF THE NAZI PRESS

From our own Correspondent

BERLIN, DECEMBER 12.
Germany's backing of Italy's Mediterranean claims is now extended to changes in the management of the Suez Canal. Following the demands of Mussolini's organ the "Giornale d'Italia" for a reduction in the Suez Canal dues, the official Nazi party organ "Völkischer Beobachter" to-day demands representation of the Berlin-Rome-Tokio triangle on the canal's governing board. Thirty per cent of the receipts of the Suez Canal Company serve to cover its entire cost, the Nazi organ says, so that about 70 per cent is available as profits.

The paper says that the Suez Canal is often described by the sea Powers concerned with it as a traffic obstacle and not as a sea road. With a directorate of 21 French, 10 British, and

one Dutchman (Germany having lost her seat owing to the Versailles Treaty and Italy not being represented at all) the Suez Canal is a Franco-British undertaking, and therein lies a breach of the company's statutes, since it is described as an international one.

It cannot be legally justified that Germany, Italy, and Japan are not represented on the board, the paper continues. The company's structure is French. Britain has undertaken the defence of the Suez Canal for political and strategic reasons. The present conditions need alteration. The concession runs to 1957, when the canal reverts to the Egyptian State. But, it goes on, time is pressing, and redress must be made with full guarantees for the interests of all States having a large share in the traffic passing through the canal.

[The paper is mistaken. The canal reverts to the Egyptian Government in November, 1968.]

NOTHING TO BE WRITTEN IN THIS MARGIN.

NOTHING TO BE WRITTEN IN THIS MARGIN.

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231
J 4604
14 DEC 1958

NO DISTRIBUTION.

Telegram (en clair) from Sir G. Ogilvie-Forbes, (Berlin).

D. December 12th, 1958.

R. December 14th, 1958.

No. 621. SAVING.

-----oOo-----

My telegram No. 608 Saving. R

Prominence is given in several newspapers today to excerpts of Signor Gayda's article in the "Giornale d'Italia" in which he demands a revision of the Suez Canal Statute. The article is represented as claiming a radical and speedy revision of the entire administration of the Canal.

The "Völkischer Beobachter" in comment writes that the Suez Canal, since the conquest of Abyssinia, has become a main artery of the Italian Empire. It is quite natural, therefore, that Rome should demand that the Statute be adapted to the new situation. The Canal dues, which have to be paid in gold, are much too high - 70% of the receipts - and there is no justification for the exorbitant profits derived at the expense of the users of the Canal, which is not a traffic facility, but a traffic obstruction.

The Statutes of the Company, it is stated, contain a clause in which the Company is described as an international undertaking. Actually, however, the Company is Franco-British. The Statutes have, therefore, been violated, and there are no legal or moral grounds for preventing Germany, Italy and Japan from being represented on the Board. The concession expires in 1957, but time passes, and the position must be remedied in the interests of all States using the Canal.

Addressed to Foreign Office telegram No. 621 Saving
repeated to Paris No. 250 Saving and Rome No. 57 Saving.

FO. SECRETARY

612

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233

the article was wrong in stating that the Concession expires in 1957, since the Canal only reverts to the Egyptian Government in November 1968.

We are sending copies of this letter to Paris, Rome and Cairo.

Yours ever,

Egyptian Department.

V. C. ... 15. XII.

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strictly B. J. Iss. Dec. 1st Tel. repeated to No. 60 Savings in No. 142 Savings	
(Index.) 1.) 38	gcl 24 1
Text Paper.	
1612	

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J		J 4604 235
1938	EGYPT and SUDAN	
Registry Number J 4606/38/16. TELEGRAM FROM Lord Perth, Rome. No. 286 Saving Dated en clair. Received 12th Dec. 1938. In Registry 14th Dec. 1938. J : Egypt and Sudan.	<u>Italian attitude as regards the Suez Canal.</u> Refers to Rome telegram No. 743 (R 9828/240/22) and Rome despatch No. 1128 (R 9870/240/22). Gives substance of article by Dr. Gayda published in the "Giornale d'Italia" of the 11th December, 1938, dealing with the question of the Suez Canal and claiming that a "radical and speedy revision of the whole administrative régime of the Suez Canal is imperative". Dr. Gayda lays stress on the need for a drastic revision of tariffs as well as of the administration of the Canal, and asserts that the problem of Suez is an essential part of the general problem of European collaboration. (Repeated to Paris.)	
Last Paper.	(Minutes.)	
J 4604		
References.		
Rome desp. No. 1032 of 16th Nov. 1938 J 4311/38/16 (Print.)	Please see minute on J 4604. Report to Committee on - meeting 60 142 142 By Bag 15th December 1938. AN 17/11 Southern Dpt. The Bank 12 Copies to Admiralty B. of T. Treasury. R. Commandant 16. XII.	
(How disposed of.)		
7.14. Admiralty. B. of T. Treasury. Dec. 15. copies of J 4604/38/16. Admiralty B. of T. Treasury. Forward tel. repeated Cairo No. 60 Saving Berlin No. 142 Saving		
Action completed.)	(Index.)	
12.38	900 24	
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J 4612		

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236
J 4606
14 DEC 1938

From ITALY.

Telegram (en clair) from The Earl of Perth (Rome).

D. 12th December, 1938.

R. 14th December, 1938.

No. 286. (Saving).

.....
R 9828/240/22 R 9870/240/22
My telegram No. 743 and despatch No. 1128, both of December 10th.

After dealing with the argument that the Franco-Italian Agreements of January 1935 settled all outstanding matters between France and Italy, Gayda has gone on to publish articles discussing the problems which he maintains are still open.

The first was published in the "Giornale d'Italia" of December 11th and dealt with the question of the Suez Canal. This question was dealt with at some length in my despatch No. 1032 of November 16th reporting an article founded upon the paper presented by Dr. Alberto Pirelli to the Convegno Volta last October. Dr. Gayda recapitulates much of the material contained in this article, especially with regard to the large profits of the Canal company and the increasing use of it by Italy in recent years, especially after the occupation of Abyssinia. He shows that Italian tonnage is second only to that of Great Britain in the use of the Canal, but that the company remains practically speaking under Anglo-French control.

After dealing at length with the history and development of the Canal, Dr. Gayda claims that in the general interests of European civilisation and the special interests of all countries, for their freedom of navigation and for the legitimate needs of the labour and production of all countries, a "radical and speedy revision of the whole administrative régime of the Suez Canal is imperative".

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237

2.

imperative". He says that the figures show that the company is responsible for "one of the most clamorous, capitalistic exploitations imaginable, which economic and financial justice, so dear to the democracies where domestic relations are concerned, must reject also when it comes to international relations". The time had come to found the administration of the Suez Canal upon new principles and a new basis. Italy, which took second place as regards navigation through the canal, and next to England paid the highest sum in tariffs, was without any compensation in dividends because she had not a single share. It was essential, therefore, to proceed to a drastic revision of tariffs, and there must be changes in the administration of the canal which should be regarded as a public utility enterprise, in which all the States should be interested in proportion to the contribution which they made to its use, with due regard to the interests of Egypt as sovereign Power over the territory traversed by the canal. In substance, Dr. Gayda continues, the administration of the Suez Canal ought not to be constituted by a private group of capitalists who over-rode the interests of the navigation of the whole world, but by representatives of all the nations using the canal, in proportion to the extent it was used by them. He recalls that the President of the Board of Trade had said as long ago as 1871 that the canal ought to have been placed under the control of a European commission, so that it should be administered on the lines of what we call a public utility company. Dr. Gayda concludes that the problem of Suez is an essential part of the general problem of European collaboration on the basis of equality of rights in proportion to the interests of the several nations.

Addressed to Foreign Office, No. 286 Saving; repeated to Paris No. 41 Saving.

FO. REGISTRY.

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199 828/240/22

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From ITALY.

Decypher. The Earl of Perth (Rome).
10th December, 1938.

D. 11.30 a.m. 11th December, 1938.

R. 2.30 p.m. 11th December, 1938.

No. 743.

.....

An article by Gayda yesterday contains what is probably the official justification of Italian claim on France. Argument stated or implied seems to be as follows:

1. By the Treaty of London of April 1915 Italy was promised that if Great Britain and France added to their Colonial possessions in Africa she could claim broadly equitable compensation, particularly as regards frontier of her Colonies. See Article XIII of the Treaty. His Majesty's Government liquidated their liabilities in this respect in 1925 by the transfer of part of Jubaland, and the Egyptian Government by the cession of the oasis of Jagbrub.

2. Under the Mussolini-Laval Agreements of 1935 Italy accepted inadequate territorial compensation, because she was granted by France simultaneously free hand in Ethiopia.

3. The latter condition was never fulfilled by France (imposition of sanctions etc.).

4. Effect was to be given to 1935 agreements by the exchange of ratifications and by the simultaneous signing of a special arrangement about Tunis. Neither of these have materialised.

5. Italy is therefore not bound by the 1935 agreements either morally or juridically.

6. Consequently her claim against the Treaty position remains unsatisfied.

Full summary of the Article included in the despatch which follows by post.

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241

No.1519.
(J 4612/38/16)

FOREIGN OFFICE, S.W.1.
15th December, 1938.

OUT FILE

Sir,

The Egyptian Ambassador called here on the 13th December in order to raise with His Majesty's Government the question of Italian and other claims relating to the control of the Suez Canal.

2. Nashat Pasha stated that he had been instructed to emphasise that his government were among the first to be entitled to consultation if any change were contemplated in the administration of the Canal. In the first place, Egypt exercised sovereignty over the territory through which the Canal ran, and, in the second place, the Canal itself would in a number of years revert to the Egyptian Government in full ownership. From the latter point of view the Egyptian Government were considerably interested in the question of the Canal dues. In particular the Ambassador protested strongly against the propaganda which was beginning to be disseminated for the internationalisation of the Canal. His Excellency said that there was no more reason to internationalise the Suez Canal than the Kiel Canal, which gave access to the Baltic where there were a number of riparian States.

3. Sir Alexander Cadogan informed the Ambassador that His Majesty's Government had naturally noted the propaganda which was being put about in regard to

His Excellency
Sir Miles Lampson, G.C.M.G., C.B.,
etc., etc., etc.,
Cairo.

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242

to the Canal, but that His Majesty's Government at least had received no representation from any foreign government on the subject. He assured the Pasha that His Majesty's Government were fully mindful of the Egyptian Government's interest in the matter and promised to inform me of His Excellency's remarks.

4. Copies of this despatch are being sent to His Majesty's Embassies at Paris, Berlin and Rome.

I am, with great truth and respect,

Sir,

Your Excellency's obedient Servant,

(For the Secretary of State)

(Sd.) V. CAVENDISH BENTINCK

<p>1023</p>	<p>J</p> <p>EGYPT and SUDAN</p>	<p>J 4624</p> <p>243</p>
<p>J 4624/38/16.</p> <p>GRAM FROM</p> <p>Lampson (Cairo).</p> <p>Decypher.</p> <p>16th December, 1938</p> <p>16th December 1938.</p> <p>Egypt and Sudan.</p>	<p><u>Egyptian reactions to Italian claims with regard to the Suez Canal.</u></p> <p>Refers to Foreign Office telegram No. 56 Saving of 7th December, 1938 (J 4453/73/16). Describes Egyptian reactions to the recent articles in the Italian press putting forward Italian claims to representation on the Board of the Suez Canal Company and to large reduction of dues. Claims voiced in Italian press have received hostile reception and fear is expressed that Great Britain and France may make a deal with Italy as regards the Suez Canal at Egypt's expenses. Refers to Cairo telegram No. 668 of 13th December, 1938 (J 4599/38/16).</p>	
<p>Last Paper.</p> <p>J 4612</p>	<p>(Minutes.)</p>	
<p>References.</p>	<p>The attitude of the Egyptian Govt. towards the Italian and German aspirations was explained to Sir A. Cadogan by Marshal Taha - see J. 4612/38/16.</p>	
<p>(Print.)</p>	<p>14/17/41</p> <p>Mr. Barker.</p> <p>W.B. 12</p>	
<p>(How disposed of.)</p> <p>sent to BGT,</p> <p>Admty. A.M</p> <p>on J 4726/38/16.</p>	<p>V. commandant Bentinck 18. XII.</p>	
<p>(Index.)</p> <p>13</p> <p>1.39</p>	<p>34</p>	
<p>Next Paper.</p> <p>J 4634</p>	<p>15741 9/37 F.O.P.</p>	

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J 4624

244

16 DEC 1938

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Decypher. Sir M. Lampson (Cairo).

16th December, 1938.

D. 12.32 p.m.

16th December, 1938.

R. 12.10 p.m.

16th December, 1938.

No. 674.

Your telegram No. 56 saving. J 4453/73/16

Main Egyptian reactions are that:-

(i) Egypt is principal interested party as territorial sovereign whatever foreign countries may be interested in the Canal for transit of its ships.

(ii) Any international regulation of dues now would prejudice Egypt's financial interests when the Canal reverts to Egypt.

(iii) Italian insistence on the international character of the Canal might lead to some form of internationalisation which would affect Egypt's sovereign rights.

In view of the above considerations claims voiced in Italian press have received hostile reception and fear is expressed that Great Britain and France may in order to appease Italy make a deal with her over the Canal at Egypt's expense. See also my telegram No. 668.

Despatch on the whole question will follow by Air Mail.

DEC 16 1938
F.O. REGISTRY

<div style="text-align: center; font-size: 2em; font-weight: bold;">J</div> <div style="text-align: center; font-size: 1.5em; font-weight: bold;">EGYPT and SUDAN</div>		<div style="border: 1px solid black; padding: 5px; display: inline-block;"> J 4634 245 </div>	
1938 Registry } 4634/38/16. From Sir M. Lamson Cairo. 1314(140/73/38) 13th Dec. 1938 Received Registry } 9th Dec. 1938 Egypt and Sudan.		Position of Egypt in regard to negotiations arising from any Italian proposal concerning the Suez Canal. Transmits a copy of (1) note No. 264 of 11th December 1938, from the Egyptian Ministry of Foreign Affairs referring to the Prime Minister's statement in Parliament regarding consultation with French Government in the event of Italian proposals for modifications in the administration of the Suez Canal and asking that His Majesty's Government may be informed of the views of the Egyptian Government as regards the position of Egypt in this connexion; (2) Embassy's reply No. 320 of 13th December, 1938.	
Last Paper. J4624		(Minutes.) This simply repeats the points made by the Egyptian Ambassador in his conversation with Sir A. Cadogan on Dec. 13th (J4612), amplified in Sir A. Cadogan's telegram no. 674 of Dec. 16th. (J4624). R.W.J. Harpur. 19/12/38 <i>Asst. Secy</i> <i>Sudan Off. Assistant</i> <i>Mr. Buxton</i> 20/12/38 The Egyptians should be satisfied with yesterday's question and answer in the House about the Suez Canal when the Prime Minister informed Mr. A. Henderson that the status of the Suez Canal could not be altered without the consent of the parties to the Suez Canal Convention and of Egypt. A copy of the question and answer is being sent to Cairo by today's air bag. J4693/73/16. VC2 1. Wilson Young December 20th, 1938.	
References.			
(Print.)			
(How disposed of.)			
Action completed. SP. 1.1.39	(Index.) 34 M-1		
Next Paper. J4638			

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Ministère

des

Affaires Etrangères.

247

**Direction des Affaires
Politiques et Commerciales.**

Le Caire le 11 Décembre, 1938

Relations Politiques.

No. 38-11/19. (264).

Monsieur l'Ambassadeur,

Au cours de la séance de la Chambre des Communes de 6
courant
décembre /, Monsieur le Premier Ministre a fait part de l'intention
du Gouvernement Britannique de consulter le Gouvernement Français
dans l'éventualité où il serait saisi de propositions italiennes
tendant à apporter des modifications dans l'administration du Canal
de Suez.

Ces propositions intéressent l'Egypte au premier chef en sa
qualité de Puissance territoriale, d'autorité ayant accordé la
concession du Canal et de successeur de la Compagnie du Canal à
l'expiration de la concession.

J'ai donc l'honneur de vous prier de bien vouloir porter
à la connaissance de votre Gouvernement que le Gouvernement Egyptien
estime devoir être associé au Gouvernement Français dans cette
question de négociations au cas où des propositions italiennes
touchant le Canal de Suez seraient présentées et qu'il espère que
le Gouvernement Britannique voudra bien trouver l'occasion de
compléter sa première déclaration dans le sens de l'association de
l'Egypte dans les dites négociations.

Je saisis cette occasion pour vous renouveler, Monsieur
l'Ambassadeur, les assurances de ma très haute considération

**LE MINISTRE DES AFFAIRES ETRANGERES,
(signed) A. Yehia.**

**Mon Excellence
Sir Miles Wedderburn Lampson,
G.C.M.G., C.B., M.V.O.,
Ambassadeur Extraordinaire et
Plénipotentiaire
de Sa Majesté Britannique.**

4653

15741 9/37 P.O.P.

Jibuti /

No. 320.
(140/75/38).

248
BRITISH EMBASSY,
CAIRO.

13th December, 1938.

Your Excellency,

I have the honour to acknowledge the receipt of Your Excellency's note No. 334 (38-11/19) of 11th December regarding the position of Egypt in relation to possible Italian proposals for modifications in the administration of the Suez Canal.

2. I hasten to inform Your Excellency that the contents of your note have been at once transmitted to His Majesty's Principal Secretary of State for Foreign Affairs. So far as I am aware, no proposals have in fact been made to my Government by the Italian Government.

I avail myself of this opportunity to renew to Your Excellency the assurance of my very high consideration.

His Excellency
Abdel Fattah Yehia Pasha,
etc., etc., etc.,
Minister for Foreign Affairs,
Cairo.

4653

15741 9/37 F.O.F.

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<p>1038</p>		<p>J</p>	
		<p>4638 249</p>	
<p>EGYPT and SUDAN</p>		<p>French press comments on Italian claims with regard to the Suez Canal.</p> <p>Summarises leading article in the semi-official "Temps" of 18th December criticising Italian claims with regard to the Suez Canal. The article asserts that it has proved impracticable to administer the Canal on an international basis, and emphasizes that it owes its existence to French enterprise and capital. With reference to the question of Italy's communications with East Africa, the article points out that the Canal must remain open to ships of all nations even in time of war. The article may be a reply to the leading article in "The Times" of 17th December, which has created a painful impression in France. (Copy sent to Rome).</p>	
<p>4638/38/16.</p> <p>GRAM FROM E. Phipps, Paris.</p> <p>25 Saving (en clair) 18th Dec. 1938</p> <p>19th Dec. 1938</p> <p>gypt and Sudan.</p>		<p>(Minutes.)</p>	
<p>Last Paper.</p> <p>4634</p>		<p>Copies of this telegram were sent yesterday to the Treasury, Board of Trade and Admiralty.</p> <p>The article in the "Temps" of the 18th December is strongly critical of Italian claims with regard to the Suez Canal. The only new point is that Italian tonnage in 1936, the most favourable year for the Italian thesis, only amounted to 19% and has since steadily declined being only 12% for the last October.</p>	
<p>References.</p>		<p>Southern department. 14/11</p> <p>Central department. 21/12</p> <p>1. Wilson. 4/12</p> <p>December 20th, 1938.</p>	
<p>(Print.)</p>		<p>I annex the 'Times' article of December 17th mentioned by Sir Eric Phipps in the last paragraph of this telegram. It is not the first time, nor will it I fear be the last, that a 'Times' leading article has created a painful impression in Paris. It is unfortunate that greater importance is attributed abroad to the 'Times' than either its circulation or the opinions expressed therein warrant. It is typical of the 'Times' to set out <u>in extenso</u> the Italian allegations regarding</p>	
<p>(How disposed of.)</p> <p>Boys Admiralty Tay Dec 20</p>		<p>15741 9/37 F.O.P.</p> <p>Jibuti /</p>	
<p>Next Paper.</p> <p>4655</p>		<p>(Index.)</p> <p>1.39</p>	

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Jibuti and the Jibuti - Addis Ababa Railway with only a statement that "these charges are no doubt exaggerated" in favour of the French.

V. C. ...

20th December 1938.

News Dept.

*This article was for
from helping us in
any respect.*

Lo 21 Dec.

*The "Times" is often embarrassing - to
no good purpose.*

*Alb.
Dec. 21/38*

H. 21/12

N

Minutes.

INDEXED.

250

Extract from the 'Times' of 17th December 1938.

ITALIAN CLAIMS

The article from our Paris Correspondent on this page supplies the necessary background against which the Italian claim for Tunisia has to be considered. As it clearly demonstrates, that strategically most important part of North Africa is no new point of friction between the two great Mediterranean countries. The Tunisian dispute has waxed and waned in acerbity in accordance with variations in their general relationship. Fifty-seven years ago France seized Tunisia, though at that time the French colonists were a mere handful compared with the Italians. This forestalling of Italian intentions has always rankled in Italy, which is much nearer to Tunis than any other European State; but twice subsequently, at times when she has been heavily engaged in Abyssinia, Italy had appeared to acquiesce finally in the French occupation. Now, flushed by successes elsewhere, the Fascist régime has renewed the claim in spectacular but unofficial manner. M. BONNET told the Foreign Affairs Committee of the French Chamber on Wednesday that no formal demand for the cession of any territory had been made by the Italian Government—at the same time making it clear that none would be entertained; and MR. CHAMBERLAIN almost at the same moment announced in the House of Commons that in the British Government's view the undertaking to respect the *status quo* in the Mediterranean, embodied in the Anglo-Italian Agreement, did certainly apply to Tunis.

The conclusion is therefore plain that, whatever aspirations may be entertained by Italy in respect of her nationals in Tunis, no territorial change can be regarded as seriously in question. Nor were the manner and the moment well chosen to support even arguable demands. Stage-managed demonstrations are not the way to impress a proud Imperial country like France, and her resentment is naturally the greater because the newspaper articles accompanying and following the Roman demonstration showed that it had been timed to coincide with the threatened general strike in France—which was being sedulously proclaimed in Italy to be a sign of French decadence. The Italian design entirely defeated its object, for there can be little doubt that the external menace helped M. DALADIER to overcome his internal difficulties. And from the British point of view the Italian move has seemed no less ill-timed, for it contradicts both the letter and the spirit of the Agreement finally concluded just a fortnight before.

It is permissible also to doubt whether the moment chosen was really opportune from the Italian point of view. An immense tract of African country farther south has only recently been acquired and is as yet neither fully organized nor even fully absorbed. It is involving heavy cost in men and money every month, and it must be many years before Italy can hope to derive material benefit from this addition to her colonial empire. The figures which were published on Wednesday show that the national exchequer is faced with a deficit of approximately £54,000,000 on a total Budget of about £300,000,000. This period of strain in Abyssinia and financial stringency seems hardly the moment for a new diplomatic campaign, employing the usual resources of totalitarian diplomacy. A large increase of expenditure on the fighting services is planned for next year, and it is difficult to see how the money is going to be found. The decision is all the more remarkable since no sort of suspicion can be entertained that any country in the world has aggressive designs against Italy or the Italian Empire. Rome is bound by its axis to the Reich; a treaty has just been signed with Great Britain; France has expressed her desire to conclude a similar agreement; Spain is obviously in no state to attack anybody. If in these circumstances Italy raises cries for Tunisia, Corsica, and Nice, and simultaneously plunges deeper into debt in order to expand her rearmament, it seems almost justifiable to appeal from the MUSSOLINI of to-day to the MUSSOLINI of before the War. In those days he vigorously opposed the Italian Government which embarked on war in Tripoli, because, as he is recorded to have said, he preferred that Italy should be "well cultivated, rich, and free." Far more to-day than at that time does it seem to impartial observers that the people, not of Italy alone but of every country in Europe, need the chance of cultivating their resources in quiet, of building up prosperity, of recovering or maintaining their freedom. A policy of adventure has its attraction for a time, but it palls on a prudent nation.

Some of the other Italian claims are so fantastic that they also can hardly have been seriously meant; and the fact that they have all been raised together in so strident a fashion has tended to drown the voice of reason in dealing with one or two more legitimate grievances. The Suez Canal, for example, constructed by French capital and therefore directed by a preponderance of French business men, has become a vital artery between Italy and her largest colony. She is now the second largest user of it—though Italian traffic through the Canal is still only 16 per cent. as against the British fraction of 47 per cent. of the whole—but neither her Government nor her nationals have any voice in its management. The dues are high—though they have just again been slightly lowered; the profits are large; and Italy, a great

contributor, draws nothing out, though she has the advantage shared by all of its extremely efficient administration. There is in fact an arguable case for her representation on the board. Again, in the matter of Jibuti, the general position has been completely altered by the Italian acquisition of Abyssinia, which has now been recognized by all the European Powers with interests in Africa. The position of French Somaliland, where the railway from Addis Ababa reaches the sea, leaves the Italians with no share in the control over the only railway in Abyssinia, of which they are now of course by far the greatest users. The port of Jibuti according to Italian critics, is badly managed and inadequately equipped for the volume of trade which passes through it to-day. The Italian demand for a free zone has been refused, and the French dues are ruinous. The rolling stock, too—according to the Italian argument—is out of date, and all attempts by Italy to gain some share in its management are rebuffed. According to these critics, indeed, the French management takes full advantage of its monopoly and, instead of making Jibuti an instrument for collaboration with the Italian Empire, uses its controlling position to obstruct Italian development. These charges are no doubt exaggerated, but there is certainly room for a new working agreement to settle the differences which have arisen and to meet new needs. One cardinal rule in dealing with claims of this kind is to separate legitimate objections to the *status quo* from mere hectoring demands for territorial aggrandisement. In Africa particularly, when the future of great native populations is concerned, the case for resisting such demands will be enormously strengthened if questions like those of the Suez Canal dues and the Jibuti railway are frankly faced and discussed.

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Telegram (en clair) from Sir E. Phipps (Paris).
December 18th 1958.

D. December 18th 1958.

R. December 18th 1958.

No. 825. Saving.

In a leading article, the semi-official "Temps" of December 18th criticises the Italian claims with regard to the Suez Canal. Although these claims have been made as part of the present Italian press campaign against France, the article states, the question of the Suez Canal cannot be settled by agreement between France and Italy, any more than between Italy and Great Britain, since its settlement depends in the end on Egypt, to whom the Canal will revert in 1968, and who, it is clear, is apprehensive of Italy's designs to dispossess her by radically altering the nature of the undertaking. It is true that Lesseps originally conceived of the Canal on an international basis, but this proved impracticable. In effect it was France who provided almost all the necessary capital, and France still holds the majority of the shares. The Canal, therefore, without the existence of which the new Italian Empire in East Africa could never have been formed, actually exists thanks to French genius, French labour and, to a large extent, French capital; and it cannot be admitted for a moment that it should be taken out of the hands of those who accepted all the risks inherent in the undertaking. As regards the Italian claim that Italy

accounts

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252

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accounts for one quarter of the tonnage passing through the Canal, this is an exaggeration. Italian tonnage in 1936, the most favourable year for the Italian thesis, only amounted to 19%, and it has since steadily declined, being only 12% for last October. Italy also complains of the Canal dues; but for the last half century the policy of the Suez Canal Company has always been to profit by the increase of traffic to diminish the dues, and the actual rate charged is less than half of what the Company is entitled to charge in accordance with the terms of the Concession and of the agreements with Egypt. Moreover, Great Britain, who accounts for more tonnage than any other States, has always recognised that the Company's constant endeavour has been to reconcile the requirements of commerce with the legitimate interests of the capital involved in the undertaking.

In reply to the Italian argument that, on account of the importance of Italian tonnage, there should be an Italian member on the Board, the article declares that it cannot be seriously maintained that those who use the Canal, which was in any case constructed for all to use, should prevail against those who are responsible for its construction, who have run all the risks, and who enjoy indisputable rights of property, management and control.

Finally, as regards the argument that Italy must ensure her communications with her East African possessions, this, the "Times" states, is of no weight in practice, since it is established by agreement that even in time of war the Suez Canal must remain open to the free passage of the ships of all nations.

The article may perhaps be a reply to the leading article in "The Times" of December 17th, which has, I understand, created a painful impression here.

Copy sent to Rome.

The

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1938

J

J 4655
253

J 4655/38/16

Sir M. Lampson
(Cairo)

05 (7/64/38)

Confidential

9th Dec. 1938.

9th Dec. 1938.

Egypt and Sudan.

Italian activities in Egypt.

It is reported that Count Mazzolini, Italian Minister, is to be transferred from Egypt in March, 1939; and that Baron Ow Wachendorf, German Minister, is likely to be transferred shortly. It is further reported that Signor Ugo Dadone, who has visited Germany, will shortly be transferred to Italy; and that Cairo office of "Agence d'Egypte et d'Orient" will be closed and its work undertaken by Signor Zamboni and Signor Lorato. The Circolo Rome in Cairo will be reopened as "Circolo Fascista Italiano". Describes position as regards return to Italy of Italians resident in Egypt.

Last Paper.

J 4638

References.

(Print.)

(How disposed of.)

(Minutes.)

Count Mazzolini and Signor Dadone are leaving Egypt because they have been too active; Baron Ow Wachendorf seems to have been transferred because he has not been active enough. This is in keeping with the present tendency to let Germany take the place of Italy as the principal power in the Near East. Cf. the extract from "L'Informateur" in J 4645. It is difficult to see how any Italian organisation in Alexandria can carry on unsubsided without the help of the Italian press. The rebranded "Circolo Fascista Italiano" will have either to economise or draw on propaganda funds.

The registration decrees (an obvious imitation of similar German legislation) seem to have fallen very flat as far as Egypt is concerned; but it will not be altogether a bad thing ^{from} if the Italians do in fact force Italian unemployed to leave Egypt by stopping their visas.

R.W.J. Harper.

2/11

[Signature]

21 XII

The

(Index.)

(Index.)

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[Signature]

Next Paper.

J 4685

[Handwritten notes and signatures]
14169 11/36 P.O.P.

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The manner in which the Germans have taken over from the Italians with the assistance of the latter the task of carrying out anti-British propaganda in the Near East is not a good omen for the future of the policy of 'appeasement' and shows a very different spirit on the part of the Italians from that which they displayed at the time of the signature of the Anglo-Italian Agreement in April last. However, I expect that the Germans will be more clumsy in their propaganda than the Italians, which is some consolation.

V. C. Cavendish

de- 22nd December 1938.

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No.1305.

(7/64/38)

CONFIDENTIAL.

BRITISH EMBASSY,

CAIRO.

9th December, 1954

My Lord,

I have the honour to inform Your Lordship that I have received recently a number of police reports containing items of news regarding the Italians in Egypt. Whilst I have been unable so far to confirm them I am transmitting herewith their substance for Your Lordship's information.

2. It is reported that Count Mazzolini, the Italian Minister, is to be transferred from Egypt in March 1939, but his successor has not yet been definitely nominated. It is not known whether this reported transfer is due to any failure on the part of Count Mazzolini to carry out his duties satisfactorily but it is interesting to note that it is reported from a different source that the Baron Ow Wachendorf, the German Minister, is likely also to be transferred shortly because he has not proved sufficiently active in promoting German propaganda.

3. It is further reported that Signor Ugo Dadone, Director of the Agence d'Egypte et d'Orient office in Cairo, will be shortly transferred to Italy. The Agence d'Egypte et d'Orient office in Cairo, the report states, will be closed and the work previously done by it will be undertaken by Signor Zamboni, the Head of the Stefani Agency here, assisted by Signor Lorato of the Giornale d'Oriente.

4. Signor Dadone left Egypt recently for Rome and proceeded to Germany, where he may have been arranging for the transfer of anti-British propaganda from the Italians to the Germans. Signor Dadone would, with all the information he has been able to collect in the Near East, no doubt be regarded at Italian Headquarters in Rome as an expert on anti-British propaganda.

The Right Honourable
Viscount Halifax, K.G., P.C., G.C.S.I., G.C.I.E.,
&c., &c., &c.

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(g 4717/42/16)

14169 11/36 F.O.P.

considerations/

1938	J	J 4685 256
	EGYPT and SUDAN	

J 4685/38/16
Sir M. Lampson,
Cairo.
1324 (140/74/38)
16th Dec. 1938.
20th Dec. 1938
Egypt and Sudan.

Italian claims with regard to Suez Canal.

Submits observations on campaign in Italian press regarding Suez Canal, and discusses the case for reduction of Canal dues. Egypt is likely to resist substantial reductions, and presumably French Government will support attitude of French directors of Canal Company and agreement with French Government is therefore essential. Comments on Italian claim for representation on Board of Company, and submits that this question must be governed so far as His Majesty's Government are concerned by defence considerations. Reports conversation with Vice-Chairman of Company. Asks to be consulted in any discussions regarding Suez Canal.

Last Paper.

J 4655

References.

656/73/16
J 4380/38/16
J 4579 " "
J 4624 " "
J 2714 " "

(Print)

Suez Canal

(How disposed of.)

Copies sent to
B. of T., Trasy,
Admiry, A.M. &
W.O. in J 4726/38/
Tel. Cairo.
No. 15 Jan. 9.
File A.M.,
W.O.,
Admiry, Jan. 10
Trasy,
B. of T.

(Action completed.)

23.2.39

(Index.)

1/98

Next Paper.

J 4695
(J 4717/42/16)

(Minutes.)

Sir M. Lampson deals with the Italian claims for (a) a reduction in dues and (b) representation on the Board of the Suez Canal Company.

Sir M. Lampson considers that if (a) could be isolated and considered on its merits as a purely commercial question, there would be much to be said for meeting the Italian claim promptly; there are, however, serious political difficulties arising from the fact that no effective action can be taken without the prior agreement of the French Government and moreover a policy of further reduction in dues would probably be unwelcome to the Egyptian Government as tending to prejudice their position when the existing concession of the Suez Canal Company comes to an end in 1968.

As regards (b) the Ambassador considers that the Italian case may seem to have some prima facie justification in view of the extent to which Italian shipping uses the Canal and particularly if the Italian demand were limited (as may be the case at first) to the appointment of a single director. However, Sir M. Lampson's strong view remains that the admission of the Italian claim would be highly dangerous not only on the ground of defence

14169 11/36 F.O.P.

considerations/

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considerations, but also because it would almost certainly lead to a German and perhaps a Japanese demand for representation and thereafter to demands for representation in proportion to the use made of the Canal and so eventually to complete internationalisation. In para. 10 Sir M. Lampson raises a point already raised by Mr. Cavendish-Bentinck that the internationalisation of the Canal might have the ultimate result of removing from Great Britain the effective physical control over the Canal which has hitherto been the main object of our presence in Egypt and the continuance of which seems vital to our position in the Mediterranean and the Near East.

Sir M. Lampson has recently been informed by the Vice-Chairman of the Company that he was absolutely opposed, in the present political situation, to the inclusion of an Italian director.

Sir M. Lampson warns us that in his view the present Italian campaign for the reduction of dues and ^{for} Italian representation veils a much more serious objective and is part of a general movement to create dissension and to undermine our whole position in regard to this vital link in our Imperial communications. At the same time H.E. begs that he may be afforded an opportunity to comment on any proposals which may be made by the Italian Government before H.M.G. in any way commit themselves to them.

Copy Board of Trade, Admiralty and Treasury.

I. Wilson-Lewis

December 21st, 1938.

Dr. B. B. B.

Please see minute on J. 4726.

do. 1, Jan.

22/XM.

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Minutes.

257

In his despatch No.1324 of December 16th (J 4685 - flag A), Sir M.Lampson expressed the hope that the desirability of keeping the Egyptian Government informed of developments in connexion with the Italian claims to representation on the board of the Suez Canal Co. and a reduction of dues would be borne in mind.

The Egyptians are perturbed lest the French and ourselves should do a deal with the Italians over the Suez Canal which would prejudice their interests as the territorial Power concerned and as the Power to whom the Canal will eventually revert. I therefore think that we should instruct Sir M.Lampson to communicate to the Egyptian Prime Minister in strict confidence the line which the Prime Minister and Secretary of State intend to adopt when in Rome regarding the Italian claims in connexion with the Suez Canal Co. During the last crisis we communicated confidential information to the Prime Minister and our confidence was always ^{respectful} observed. Moreover I think that so far as the Suez Canal is concerned there is a moral obligation on us to communicate to Egypt as much as we tell the French in view of her position as our ally and the territorial Power concerned. For convenience of reference I annex a copy of the telegram sent to Paris yesterday (flag B).

1933/1/22

V. C. on instructions *[Signature]*

January 7th, 1939.

[Signature]
7/1

Yes: I think we certainly ought to inf. the Egyptian Govt: A.G. Jan. 19. 1939

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R 193/1/22.

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258

To FRANCE.

Telegram (en clair) to Sir E. Phipps, (Paris).

Foreign Office, 6th January, 1939, 7.30 p.m.

No. 5 Saving.

O:O:O:O

You should make the following communication to the French Government on Monday, January 9th, but not before that date:-

"2. The statement in paragraphs 4-7 of this telegram represents the attitude which the Prime Minister and myself will adopt on the questions affecting Franco-Italian relations which appear likely to be raised during the forthcoming conversations in Rome.

3. It is of course impossible to say beforehand what sort of atmosphere will be found to prevail during conversations. It is not therefore certain that the observations which follow cover the whole ground or that it will prove necessary to make all the points suggested. Some latitude will be necessary, but it can be taken that there will be no substantive departure from the attitude outlined in ensuing paragraphs.

4. The Prime Minister proposes to refer to the recent agitation in Italy for concessions at the expense of France, and to express his gratification at the assurances of the Italian Government that they neither endorse nor countenance this agitation, because of course it would imply a policy totally at variance with the Anglo-Italian Agreement, and could only render fruitless the Prime Minister's attempt to achieve international cooperation in the cause of peace and progress.

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259

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5. The Prime Minister would say that His Majesty's Government are naturally anxious to see Franco-Italian relations based on a firm and stable foundation. He is puzzled by the Italian rejection of the 1935 Agreement, more especially because, according to his information, as recently as the first interview which M. François-Poncet had in Rome, the latter was assured that there were no difficulties between the two countries other than the Spanish problem. He is unaware what has occurred since to alter this situation, and he fears that the rejection of the 1935 basis makes the re-opening of negotiations difficult, if not impossible.

6. If pressed by the Italians to give the views of His Majesty's Government on various specific claims, the Prime Minister would say that as regards Jibuti and the status of Italian nationals in Tunis, these were matters which solely concerned the Italian and French Governments; as regards the Suez Canal, however, the Prime Minister would point out that the Canal Company was governed by a Board of Directors of which the large majority was French, and on which the British Government had only three official representatives, and by share-holders of whom again the vast majority were French. In these circumstances, it was to be expected in the present temper prevailing in France in consequence of the recent agitation in Italy that, if the question of an Italian seat on the Board were raised at this moment, it would fail to
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260

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secure general support and consequently the Prime Minister feared that, until there was an improvement in Italo-French relations no useful purpose would be served by bringing forward any definite request.

7. As regards the general question of British mediation between France and Italy, if and when negotiations were started between the two Governments, His Majesty's Government would be prepared to consult with the French Government as to whether at any stage their (His Majesty's Government's) collaboration could be of use in bringing the negotiations to a successful conclusion. The Prime Minister would make it clear that he has no brief to speak for the French Government, and he would add, again, that this is probably largely due to the mood induced in France by the recent agitation in Italy."

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No.1324.

BRITISH EMBASSY 261

(140/74/38)

CAIRO.

Copy sent by air mail.

16th December, 1938.

Copy sent to Rome.

My Lord,

The present campaign in the Italian press regarding the Suez Canal foreshadows the raising of this question during the visit which the Prime Minister and Your Lordship will pay to Rome in January next.

2. The campaign is assuming formidable proportions and, though apparently linked with Italian demands regarding Tunisia and Jibouti, is in itself the more effective because of its apparent moderation. It contains for instance, so far as I am aware, no claim such as was tentatively put forward in the press in 1937 that the growth of the Italian Empire in East Africa entitled her to participate in the defence of the Suez Canal. The aim of the present campaign is ostensibly non-political and non-strategic, and is directed chiefly towards a reduction of the Canal dues. I notice, however, that while the main emphasis is laid on this point, there is, in all the Italian press references published here, a tentative suggestion as to the desirability of the internationalization of the Company or, at all events, of Italian representation on its Board.

3. The question of the dues is highly technical, and I am not competent to judge whether the present reduced tariff of 5/9d. per ton is unreasonably high. Certainly, the Italian claim for a reduction may be expected to find an echo in British shipping circles, and the reduction of

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The Right Honourable
Viscount Halifax,
K.G., P.C., G.C.S.I., G.C.I.E.,
etc., etc., etc.

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262
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the dues was laid down in Your Lordship's secret despatch No. 263 (J 656/73/16) of the 5th March last as one of the desiderata of His Majesty's Government. I am told that even the present reduced rate compares unfavourably with that of the Panama Canal, though differing standards of tonnage measurement coupled with differing problems of upkeep, to say nothing of exchange complications, make an exact comparison difficult; and in any case a commercial company naturally expects a greater margin of profit than a Government. Nonetheless, it is generally believed that the Company is run on extravagant lines, and its profits are considered by the general public to be unduly large. This is a feature of the case which the Italians could utilise with some effect in their diplomatic or public arguments.

4. The memorandum enclosed in Your Lordship's despatch No. 1479 (J 4390/38/16) of the 6th December, shows that the Company themselves do not admit that a case exists in equity for further reduction. I have no doubt that some case can be made out for the opposite view. But the main question appears to be how far it is practicable to obtain a reduction at the present time, and how far therefore it is politically desirable for us to endorse the idea, if put forward by the Italian Government.

5. I have reported in my telegram No. 668 of the 13th December that the Egyptian Government now claim officially a primary interest in any Italian proposals that may be made, and demand to be represented in any negotiations on such proposals in their triple capacity as the territorial Power, the authority which granted the Canal concession, and the ultimate successor to the Canal Company. They have not so far indicated

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263

what their attitude is likely to be on this question of dues. In my telegram No. 674 of the 16th December, however, I have reported on the reactions of the Egyptian press to the Italian press campaign and the inference to be drawn from these reactions is that Egypt is likely to resist substantial reductions, as tending to prejudice her position when the existing concession of the Suez Canal Company comes to an end in 1968.

6. It is, I presume, equally likely that the French Government will support the attitude of the French Directors of the Canal Company.

7. No doubt if the question of dues could be isolated and considered on its merits as a purely commercial question, there would be much to be said for meeting the Italian claim promptly, thereby stifling its propaganda value and making it perhaps difficult (though this is arguable) for the Italians to make more extensive demands as regards participation in the administration of the Canal. Here again there are serious political difficulties. Although Great Britain has the largest interest at stake, at once as the chief user of the Canal and as the chief shareholder, it so happens, by the peculiar statutes under which the Canal is administered, that the controlling voice in the management is not that of His Majesty's Government. In practice no effective action can be taken without the consent of the French interests. However reasonable therefore we may consider the Italian demand for a reduction of dues, we cannot endorse it, except with the prior agreement of the French Government, without the risk of a cleavage between ourselves and France. Nor is it easy for us to endorse a policy which we have every reason to suppose would be unwelcome to our ally, Egypt. What therefore should be a

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264

simple commercial matter has an important political bearing.

8. On the question of Italian representation on the Board of the Canal Company, I would invite a reference to my secret despatch No. 767 of the 29th June last, in which I expressed my views at length. The Italian case, in this respect also, may seem to have some prima facie justification in view of the extent to which Italian shipping uses the Canal and particularly if the Italian demand were limited (as may be the case at first) to the appointment of a single director. It is arguable that one director could have little effective influence on the management of the Company and that if Italian amour-propre is likely to be satisfied thus cheaply, political expediency demands that satisfaction be given promptly. My strong view remains, however, that the admission of the Italian claim would be highly dangerous. An Italian director would be most useful to the Italian Government for intelligence purposes and an embarrassment to us from the point of view of security and defence. But even if that were not so, it is still unfortunately doubtful whether the Italians or the Germans understand the language of concession except as an expression of weakness or a signal for further demands and the appointment of an Italian director would almost certainly be the thin edge of the wedge of internationalisation.

9. It is true that the circumstances in which the Dutch director (and for a period before the War, a German director) came to be appointed lend weight to the contention that if any additional director of other than British, French, or Egyptian nationality were to be appointed, he should be chosen with due regard to the use made of the Canal by the shipping of other nations. By this criterion the choice would at present I understand fall on Italy. But this is a very different thing

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265
5.

from the claim which the Italian press are trying to establish that the users of the Canal are entitled, as of right, to representation in its management. The admission of this principle would have far reaching results. It would almost certainly lead immediately to a German, and perhaps a Japanese, demand for representation; thereafter to demands for representation in proportion to the use made of the Canal; and so eventually to complete internationalisation. I can hardly believe that His Majesty's Government could view such a prospect with equanimity.

10. I submit that the question must be governed ultimately, so far as His Majesty's Government are concerned, by defence considerations and that it is by this standard that must be judged any proposal which, however harmless in itself, might have the ultimate result of removing from Great Britain that effective physical control over the Canal which she has so far contrived in practice to exercise exclusively in spite of the international façade erected by the Convention of 1888. That control has hitherto been the main object of our presence in Egypt and its continuance seems vital to our position in the Mediterranean and the Near East, if not indeed to the safety of the Empire as a whole.

11. A few days ago I received a visit from Monsieur Edgar Bonnet, Vice-Chairman of the Canal Company. While realising that political alignments might eventually change in such a way as to make it both desirable and safe to admit the Italian claim to representation, he was absolutely opposed to the inclusion of an Italian director on the Board in the present political situation. He observed incidentally that Italy had no locus standi for such a demand. There were only 9 shares of the Canal held in Italy, so he said, and these were held by

/the

266 6.

the Pope.

12. Such an attitude on the part of the Canal Company need not necessarily be decisive in a matter which ultimately concerns governments. But the French Government are unlikely to relinquish easily the predominant French share in the actual management of an enterprise which is a great source of pride to France. As to the Egyptian Government, any form of internationalisation is bound to meet with the bitterest opposition from the Government of a country which has so recently attained independence, which is still engaged in removing traces of international control, such as the Capitulations, Quarantine Board and the Caisse de la Dette, and which hopes itself to assume exclusive control over the Suez Canal when the present concession to the Company expires in 1968.

13. The demands put forward by the Italian press thus raise wide issues and bristle with difficulties capable of producing serious complications between ourselves and the French and Egyptian Governments. While admitting that, in the precise form put forward up to the present, they may not be intrinsically unreasonable, I regard them with grave misgiving. Italy, though working hand in hand with Germany, has in fact received a serious check at the hands of Germany in Europe. Baulked in Austria, Hungary and the Danube Valley, it is natural that she should concentrate on her new found Empire in Africa. Her claims in Tunisia and Jibuti show that she is bent on consolidating her position in the narrow seas of the Central Mediterranean and the southern end of the Red Sea. It is natural that having conquered Abyssinia she should aim also at the control of the line of communication to Italian East Africa through the Suez Canal, or at least at the removal of effective British control over the Canal. In this she must obviously proceed carefully and it is natural that her first

/demands

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267

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demands should be mild. I confess, however, that I regard the present campaign for the reduction of the dues and limited Italian representation on the Board as veiling a much more serious objective, and as part of a general movement to create dissension and to undermine our whole position in regard to this vital link in our imperial communications.

14. One further point. Any discussions affecting the Suez Canal which may take place in Rome will be followed with the most intense interest and with serious misgiving by the Egyptian Government. I hope that the desirability of keeping the Egyptian Government informed of developments will be constantly borne in mind, and I earnestly trust I may be afforded an opportunity to comment, from the point of view of our special position in Egypt on any proposals which may be made by the Italian Government before we in any way commit ourselves to them. The embarrassment which ensued during the Rome negotiations owing to this Embassy not having been consulted in advance in regard to the Canal/^{declaration}will doubtless be remembered.

I have the honour to be,

With the highest respect,

My Lord,

Your Lordship's most obedient, humble Servant,

Arthur G. Thompson

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J 4685/38/16.
OUT FILE

TO EGYPT.

268

Cypher Telegram to Sir M. Lampson (Cairo),
Foreign Office, 9th January, 1959, 3.25 p.m.
No. 15.

VVVVVVV

IMPORTANT.

Your telegram No. 3 [of January 4th: Italian claims to representation on the Board of the Suez Canal Company and for reduction of dues].

Please inform Egyptian Prime Minister in strictest confidence that whilst it is impossible to say beforehand what sort of atmosphere will be found to prevail during the conversations the Prime Minister proposes to refer to the recent agitation in Italy for concessions at the expense of France and to express his gratification at the assurances of the Italian Government that they neither endorse nor countenance this agitation because it would imply a policy totally at variance with the Anglo-Italian Agreement.

If pressed by the Italian Government to give the views of His Majesty's Government on various specific claims the Prime Minister would say that as regards Jibuti and the status of Italian nationals in Tunis these were matters which solely concern the Italian and French Governments; as regards the Suez Canal however the Prime Minister would point out that the Canal Company was governed by a Board of Directors of which the vast majority were French and on which the British Government had only three official representatives, and by shareholders of whom again the vast majority were French. In these circumstances it was to be expected in the present temper prevailing in France in consequence of the recent agitation in Italy that if the question of an Italian seat on the Board were raised at this moment it would fail to secure general support and consequently the Prime

Minister/

269

2.

Minister feared that, until there was an improvement in Italo-French relations no useful purpose would be served by bringing forward any definite request.

You should assure the Prime Minister that His Majesty's Government, bearing in mind the position of the Egyptian Government as the territorial Power concerned, consider that that Government should participate in any intergovernmental conversations or negotiations that may take place on this subject when relations between the United Kingdom and France on the one hand and Italy and Germany on the other have been placed on a satisfactory basis.

If the Italian Government refer to their desire for reduction of dues, the Prime Minister will say that as in the past so in the future His Majesty's Government will continue to be sympathetic to proposals for a reasonable reduction in dues so long as the efficient management of the Company is fully maintained and that they would be prepared to accept such proposals as commended themselves to the Board of Directors.

You should show this telegram to Lord Hankey for his confidential information.

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212/25/38.

By Air Mail.

J 4695
21 DEC 1938

BRITISH EMBASSY
~~EXERCISES~~ 271
CAIRO.

16th December, 1938.

h 20 —

Dear Lancelot,

84281/1/31

With reference to my despatch No. 1264 of 29th November, I enclose herewith a rather amusing article in "L'Informateur" of Alexandria regarding the arrangement of which you already know between the Germans and the Italians for the exchange of propaganda rôles to suit their respective international obligations or the changing expediencies of international politics.

Pretty accurate in what it says !

Yours ever,

Arthur L. Lampson

Sir Lancelot Oliphant,
K.C.M.G., C.B.,
Foreign Office,
S.W.1.

tel point l'agence A.E.O. que son directeur, M. Dadone jugea bon de mettre une sourdine à son activité, en s'éclipsant de la scène égyptienne. Survint entretemps, l'homologation du pacte anglo-italien et les agents de l'Italie mirent en veilleuse leur propagande locale.

La propagande Allemande

L'Egypte, cependant, n'y gagna aucun répit. Rome passa la torche à Berlin et la course à relais reprit de plus belle.

peuvent s'améliorer aux Etats-Unis et même en Europe. Chez nous elles végètent et végèteront aussi longtemps que l'Egypte n'exercera pleinement les attributs de sa souveraineté pour mettre un terme complet et définitif aux immixtions étrangères si dangereuses pour le Pays.

L'Informateur

4717

14109 11/12/38

272

**EXTRACT FROM "L'INFORMATEUR"
OF 9th DECEMBER, 1938.**

L'action de l'axe Rome-Berlin en Egypte

Mais pourquoi aller chercher si loin des exemples de ce jeu machiavélique ? L'Egypte même fournit actuellement une illustration frappante de cette politique. Jusqu'au 16 novembre date à laquelle fut signé le pacte anglo-italien, une propagande italienne effrénée sévissait chez nous. Les émissions en arabe du poste radiophonique de Bari inondaient le Proche-Orient de nouvelles contournées et tendancieuses. Sur place, les agents du fascisme travaillaient à fond l'opinion. Les bulletins volants de l'A.E.O. pénétraient dans tous les recoins. On connaît, par des ouvrages parus à Londres et par les récentes révélations du «Doux-tour» jusqu'où allait cette action de l'Italie. Dans chaque journal, les rédacteurs, petits et grands, se voyaient offrir une rémunération pour tout article favorable à l'impérialisme fasciste. Ces révélations circonstanciées sur cette tactique à la fois machiavélique et naïve ridiculisèrent à tel point l'agence A.E.O. que son directeur, M. Dadone jugea bon de mettre une sourdine à son activité, en s'éclipsant de la scène égyptienne. Survint entretemps, l'homologation du pacte anglo-italien et les agents de l'Italie mirent en veilleuse leur propagande locale.

La propagande Allemande

L'Egypte, cependant, n'y gagna aucun répit. Rome passa la torche à Berlin et la course à relais reprit de plus belle.

Cette fois, ce n'était plus de la frontière occidentale de la Lybie que se dessina la menace, mais de la frontière orientale de la Palestine. Le manteau du panarabisme servit à dissimuler l'action du Reich, et cette propagande se poursuit activement. A la A.E.O. succéda la D.N.B. Si l'on doute de l'inspiration officielle qui dicte les bulletins de l'agence télégraphique allemande et préside à leur distribution, il suffit de se rendre à ses bureaux n'importe quel jour de 9 à 11 heures du matin ou presque à n'importe quel moment de l'après-midi. On y rencontrera Herr Stellbogen attaché à la légation du IIIe Reich au Caire.

Jusqu'à ce que les relations se gâtent de nouveau entre l'Angleterre et l'Italie, au sujet de la France, de l'Espagne ou de n'importe quel autre pays, c'est à l'Allemagne qu'est dévolu le rôle d'entretenir une agitation malsaine antianglaise chez nous. Quand, au prix de qui sait quelles concessions, le Reich consentira de désarmer momentanément, la torche sera repassée aux mains italiennes prêtes à la saisir. Et ainsi de suite. Ne poursuivant qu'un responsable à la fois, on ne parviendra jamais à mettre fin à l'action subversive de tous les deux. Et chacun de ces responsables, assuré de la collaboration absolue de l'autre, pourra promettre pour quelque temps tout ce que l'on veut: son compère est là pour continuer l'action sous son nom.

Les conséquences économiques de l'action germano-italienne

Qu'on s'étonne, après cela, que la confiance persiste en Bourse, que nos Fonds d'Etat fléchissent et que le capital se montre de plus en plus timide. Devant l'impossibilité de tabler sur une véritable période de stabilité, pris entre les feux croisés des deux propagandes totalitaires et désespérant chaque jour davantage de voir un apaisement s'effectuer, le monde financier ne trouve d'autre moyen de protection que de se cantonner dans une attitude d'expectative. De la sorte, le pays, privé du concours indispensable pour assurer le fonctionnement normal de sa production et de son commerce, vit économiquement au ralenti. Les affaires peuvent s'améliorer aux Etats-Unis et même en Europe. Chez nous elles végètent et végèteront aussi longtemps que l'Egypte n'exercera pleinement les attributs de sa souveraineté pour mettre un terme complet et définitif aux immixtions étrangères si dangereuses pour le Pays.

L'Informateur

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Parliamentary Question. 274

2.N.O

8. Mr. Arthur Henderson, — To ask the Prime Minister, whether, in view of the provision in the Anglo-Italian Agreement that the status quo in the Mediterranean shall be maintained, he will say whether such status quo included the present administrative control and status of the Suez Canal. [Monday 19th December.] †

ANSWERED 19 DEC 1938
REPLY ATTACHED.

Not for oral answer

By a Declaration annexed to the Protocol signed in Rome on the 16th April last H.M.G. and the Italian Govt reaffirmed the Declaration signed in Rome on the 2nd January 1937, regarding the Mediterranean. The relevant paragraph in that Declaration reads as follows:—

"Disclaim any desire to modify, or, so far as they are concerned, to see modified, the status quo as regards national sovereignty of territories in the Mediterranean area;"

I submit that the scope of this paragraph is clearly limited to the sovereignty of certain territories and cannot be held to cover the status quo of the Suez Canal which lies wholly within Egyptian territory.

I submit a draft reply.

I. Wilson Young
16th December 1938.

Mr. Beckett,
Southern Dept.

I agree: but we had better refer to the express declaration of April 1938 with regard to the Suez Canal Convention which covers the status of the Suez Canal: as regards administrative control the 1888 Convention covers, I think, the Firman of 1866 (referred to in the preamble) which gives the concession to the Canal/
directors/

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Canal Company. The Suez Canal Convention would prevent the taking away of the concession from the Company but it would not prevent changes of control brought about within the existing statutes of the Company by election of directors of different nationality and sale of shares etc.

I reserve my opinion on the question of changes in the statutes of the Company.

(Sgd:) W.E. BECKETT.

16th December, 1938.

V. Canalis *16. XII.*

10.17 Dec.

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2. N.O.

DRAFT REPLY.

275

In the Declaration signed in Rome on the 2nd January, 1937, and reaffirmed in Annex I to the Protocol signed in Rome in April last, His Majesty's Government and the Italian Government disclaimed any desire to modify, or, so far as they were concerned, to see modified, the status quo as regards the national sovereignty of territories in the Mediterranean area. The matters to which the honourable Member refers do not come within the scope of this Declaration.

But
[On the other hand] Annex 8 to the Protocol of April last deals expressly with the Suez Canal Convention of 1888.

ReB
18/xii

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276

ANGLO-ITALIAN AGREEMENT.

Mr. A. Henderson asked the Prime Minister whether, in view of the provision in the Anglo-Italian Agreement that the *status quo* in the Mediterranean shall be maintained, he will say whether such *status quo* included the present administrative control and status of the Suez Canal?

Mr. Butler: In the Declaration signed in Rome on the 2nd January, 1937, and reaffirmed in Annex 1 to the Protocol signed in Rome in April last, His Majesty's Government and the Italian Government disclaimed any desire to modify, or, so far as they were concerned, to see modified, the *status quo* as regards the national sovereignty of territories in the Mediterranean area. The matters to which the hon. Member refers do not come within the scope of this Declaration; but Annex 8 to the Protocol of April last deals expressly with the Suez Canal Convention of 1888.

19 DEC 1938

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1938	J	J 4717 277
	EGYPT and SUDAN	22 DEC

Registry
Number } J 4717/38/16
FROM Sir E. Phipps,
(Paris).

1504
(422/27/38).
21st Dec: 1938

Received
Registry } 22nd Dec: 1938

EGYPT and SUDAN

- (1) Abolition of the Caisse de la Dette.
 - (2) Italian claims with regard to the Suez Canal.
- Transmits copies of memorandum drawn up by His Majesty's Embassy, Paris, with regard to position taken up by French Government in negotiations regarding Caisse de la Dette Nationale. Memorandum suggests that reason why French Government are more ready to accede to Egyptian demands than are His Majesty's Government is French concern over Suez Canal question. Comments on uneasiness caused to French Government and Suez Canal company by Italian demands, and records conversation with Comte de Fels, shareholder of Suez Canal Company. Asks to be informed of His Majesty's Government conclusion on subject of Italian claims.

(Minutes.)

Sir E. Phipps has sent us an interesting despatch and memorandum in which it is suggested that the French Government are more ready to accept ~~the~~ Egyptian demands over the abolition of the Caisse de la Dette than are His Majesty's Government owing to their concern over the question of the Suez Canal and their relative difficulty in bringing influence to bear upon the Egyptian Government. As far as the Caisse de la Dette negotiations are concerned these have now reached the final stage and the attitude of the French and Italian Governments is no longer a factor to be taken into consideration. The despatch is still of present interest, however, in its references to the attitude in France to the Italian claims with regard to the Suez Canal.

Paragraph 1 of the memorandum points out that the Italian demands are generally rejected ~~in France~~ in France and suggests several reasons for this, ~~as follows~~. As far as the Board of the Suez Canal Company are concerned we know that the Marquis de Vogué does not feel it necessary in principle to oppose the cession of a seat to an Italian nominee, though Sir E. Phipps has reason to believe that the majority of other French

directors/

Last Paper.

4781
4660/42/16
Caisse de la Dette
References.

4685/38/16
Italian claims
regarding Suez
Canal.

(Print)

Suez Canal. K.C.D.
memo. but without
(How disposed by.)

Paris sept. 6
A.G.

Tap
Abduty
H.M.

W.O. on 74726/38/16

7.9. Cairo. no. 32
✓ Rome no. 41

Jan. 10

Action
Completed.)

23.2.39

(Index.)

20
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Next Paper.

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directors will oppose any such step; moreover, the Comte de Fels, one of the largest individual shareholders and formerly private secretary to Monsieur de Lesseps, has informed the Ambassador that the assembly of shareholders, with whom alone rests the election of members of the Board, would almost certainly refuse to agree to the appointment of an Italian.

Sir E. Phibbs
asks to be informed of any conclusions by H.M.G. with as little delay as possible.
 Copy to Board of Trade, Treasury, Admiralty,

Cairo and Rome.

I. Wilson Young

23rd December, 1938.

Central Dept. Lef.
Southam
29/12
29/12
Dec 30

This despatch is interesting and I have sent a copy straight away to the printer. I would suggest that it merits K.C.D. distribution?

From the records that I have read of earlier discussions regarding the question of Italian representation on the Board of the Suez Canal Company, I had gathered that in return for a suitable quid pro quo H.M.G. might be prepared to consider supporting this request, but from a recent minute by the Secretary of State which I have seen on his advance copy of Sir M. Lampson's telegram 680 of December 21st, the Secretary of State has instructed the department to suggest how the argument against the Italian claim to a director could best be maintained. In that telegram Sir M. Lampson *urged with great force* that the Italian demand for representation on the Board of the Suez Canal Company should be opposed, *with great force*.

In order to coordinate the views of the department concerned, viz. F.O., Treasury, B. of T., A.M., Admiralty and W.O., I am arranging a small interdepartmental meeting; unfortunately some of the persons concerned are away this week. I submit that as soon as we have

reached/

y.h.b.
do

NOTING

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Minutes.

278

reached conclusions in this matter for submission to higher authority and these conclusions have been approved we should then send them to Sir E. Phipps for communication in whatever form he thinks best to the French Government.

M. Camille de Bentinck

December 29th, 1938.

I agree
No. 30 Dec

H. 31/12

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See within Mr Harrison Hughes letter of 10th Jan.

R193/1/22

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279

No.1504.

(422/27/38)

BRITISH EMBASSY,

PARIS.

21st December, 1938.

14717

22 12 1938

My Lord,

I enclose a memorandum drawn up in this Embassy with regard to the position taken up by the French Government in the negotiations regarding the Caisse de la Dette Nationale, which are now proceeding, in conjunction with His Majesty's Government and the Italian Government, with the Government of Egypt.

2. The memorandum suggests that the reason why the French Government are more ready to accede to the Egyptian demands than are His Majesty's Government is the concern they feel over the question of the Suez Canal and the paucity of the means which they have (in comparison with the means possessed by His Majesty's Government) of bringing influence to bear upon the Government of Egypt.

3. The demands put forward in Italy with regard to the Suez Canal have doubtless caused considerable uneasiness both to the French Government and to the Suez Canal Company. I believe that the Marquis de Vogüé himself some months ago gave the British Resident Director of the Company to understand that he himself did not feel it necessary in principle to oppose the cession of a seat on the Board to an Italian nominee. It may be that other French members of the Board may be found to share this disposition. I have, however, reason to believe that, for his part, M.Barrère will oppose with his co-directors any such development with the greatest vigour.

4./

The Right Honourable
The Viscount Halifax, K.G., G.C.S.I., G.C.I.E.,
&c., &c., &c.

14736

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280

-2-

4. I have, moreover, to-day received a visit from the Comte de Fels, who is one of the largest individual shareholders of the Suez Canal Company. He was private secretary to Monsieur de Lesseps. He told me that whereas the assembly of the shareholders (with whom alone rested the election of members of the Board) was a reasonable body and quite ready to listen to suggestions with regard to the selection of directors, there was in present circumstances no possible chance of their agreeing to the appointment of an Italian director. The question had been raised in the worst possible manner. The matter, as he had said, rested with the shareholders, and Governments, as such, were not concerned. The articles in the controlled Italian press and the semi-official German communiqué published this morning, which treated the matter as if it was one for settlement between Governments, and which adopted an intransigent tone, made it quite impossible for the shareholders to meet what appeared to be the demands of Italy, either as regards the appointment of Italian directors or as regards the modification of the status of the Company. For himself, the Comte de Fels was entirely opposed to the admission of an Italian director. To accede to the idea would inevitably have awkward consequences in that Germany and even Japan would be certain in their turn to claim a similar privilege. The complications would therefore be great. Comte de Fels dared to hope that when the Prime Minister visited Rome he would study not to commit His Majesty's Government to any expression of agreement with these suggestions, which he ventured to think would be of considerable danger to Great Britain herself - suggestions, moreover, to which France was, with unusual unanimity, most firmly opposed. The

immense/

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281

-3-

immense prestige acquired by Mr. Chamberlain as a result of his journeys to Germany, placed him in a very strong position, far stronger than that which he had enjoyed on those occasions.

5. This question with all its implications is no doubt the object of study by His Majesty's Government, and I should be grateful if I might be informed of any conclusions reached with as little delay as possible, since it is to be expected that the matter will at any moment again be raised with me by members of the Board of Directors of the Suez Canal Company, and perhaps by the Ministry of Foreign Affairs.

I have the honour to be, with great truth and respect,

My Lord,

Your Lordship's most obedient, humble Servant,

Eric Phipps

282

MEMORANDUM.

French opinion has taken up strongly the question of the demands in the Italian press in respect of the Suez Canal. The demands are generally rejected and refuted, with vigour and wealth of argument. There are probably many reasons for this non-possumus attitude:- pride in a fine French achievement and a well-run enterprise, and resentment that the Italians, who took none of the original risks, should feel that they have only to express the wish in order to establish a right to have a part in this great concern; annoyance that the Italians should seek to do this as a political measure through the French Government when the Company rather preens itself on its commercial character and its independence in relation to the French or any other Government; fear to see Italian influence present on a waterway of great strategical importance connecting France with her Colonies in the Indian Ocean and the Far East; fear to see Italian political influence increased in Egypt and placed in a better position for intriguing there with regard to the destiny of the Canal when the concession terminates in 1968; a wish to forestall anything which might contribute to further encroachment by another Latin nation on the quasi-monopoly of France in the cultural field in Egypt; anxiety to prevent any development which would diminish the relative strength of the French position at a politically strategic point; for there is keen realisation of the important fact that the Canal lies between the possessions of France in North Africa and her sphere of influence in Asia Minor and that it is situated in a country whose influence in the Moslem world to the West and to the East is considerable and whose territory provides both the natural focus of the political movements originating in either area and the natural corridor for their passage from one area to the other. Such, it may be taken, are the reasons for the importance/

4736

283

-2-

importance attached by France to the question of the Suez Canal. And it might be added that she may well feel that her present special position there offers the possibility of exerting a certain amount of control over the dangerous and restless rival which Italy has become.

It would be only natural then, that concern over the Suez Canal should influence to a large extent the general policy of France towards Egypt and more particularly her attitude to specific subsidiary questions arising between the two countries. There can be few, if any, other questions of equal importance with that of the Canal, and the French Government in such questions are likely to do everything possible to please the Government of Egypt.

At present the French Government, in conjunction with the Governments of Great Britain and Italy, are negotiating with the Egyptian Government about the abolition of the Caisse de la Dette Nationale. The Ministry of Foreign Affairs have described the French position as "largely intermediary". France, as in the case of the recent conference for the ~~modification~~ modification of the International Sanitary Convention, is showing greater complaisance towards Egyptian demands than His Majesty's Government have hitherto felt able to show: and His Majesty's Government have not had from France the support which they hoped for. This is a reversal of the French position in the controversy over the currency in which the interest on the Egyptian debt should be paid, and in the Conference for the abolition of the capitulations. The explanation probably is that France, though in general deeply interested in the security of French investments, has felt that in respect of the Caisse de la Dette negotiations the game had already been lost with the acceptance of sterling as the currency for the payment of interest on the Debt, and with the conclusion/

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LATION /

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284

-3-

conclusion of the Anglo-Egyptian Treaty and the consequential disappearance of the capitulations and the decision to abolish the Caisse. In the circumstances the conditions to be attached to the abolition of the Caisse, already admitted in principle, may well appear of less importance than the protection of French interests in the Suez Canal. The attached message from the Cairo correspondent of the "Temps" is a good example of the French point of view in regard to this question. The tendencious character of the despatch and the, to us, rather gratuitous way in which it draws a comparison between the French and British attitudes, so favourable to the French, are irritating. But they are intelligible and perhaps excusable if considered in the light of the suggestions contained in the first paragraph of this memorandum and of the repercussion of events during the last few years on French interests and the French position in Egypt. It is submitted that it would be idle and perhaps unreasonable to expect full French support for British demands, which may appear to the French of doubtful utility in view of what has gone before - demands which, moreover, may seem comparatively easy for H.M. Government to put forward in view of the special relations which they established with the Egyptian Government by the conclusion of the Anglo-Egyptian Treaty and in view of the special position which they were able to retain in Egypt in virtue of (or in spite of) that Treaty. The same considerations may apply to other questions which are likewise of less vital importance to France than that of the Suez Canal.

It is a curious reflection that whereas about the year 1876 when the French Government were most adamant as regards the rights of French investors in Egypt, His Majesty's Government did their best to exert a moderating influence based on the principle that British subjects invested their money abroad at their own risks,
now/

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285

-4-

now it is His Majesty's Government who are adopting the stronger line in support of British investors, and the French the more pliant line. This does not necessarily mean that the French will not defend the interests of their investors in the Suez Canal with the utmost energy. It is rather that in order the better to do so they have decided to be more pliable in the case of French financial interests which carry with them a less political and strategic importance. In implementing this decision, they are making the most of a recognition of the facts that owing to the tutelage of Lord Cromer, the Egyptians have learned the value of integrity in matters of national finance, that this is the one foreign lesson which they have well learned and of which they are unfeignedly proud, and that they are conscious of a record, the excellence of which they are reluctant to belie.

BRITISH EMBASSY,

PARIS.

21st December, 1938.

14756

caution /

EXTRACT from the

Le Temps 18. 12. 38.
286

EN EGYPTE
de Temps — *18 décembre 1938*
Vers la suppression
de la caisse de la dette publique

Notre correspondant particulier au Caire nous télégraphie :

La presse égyptienne consacre chaque jour d'importants articles aux négociations qui se poursuivent actuellement entre Le Caire, Londres et Paris, au sujet de la suppression de la Caisse de la Dette publique égyptienne. Cette institution, créée en 1876, a conféré aux puissances créancières de l'Egypte un droit de regard sur la gestion de la Dette égyptienne, et elle a apporté aux créanciers étrangers des garanties assurant de façon absolue le paiement du service des dettes privilégiées garanties et unifiées aux termes du décret de 1904 qui, avec l'assentiment des puissances signataires de la convention de Londres de 1885, a réorganisé l'administration de la Caisse de la Dette, la totalité des impôts fonciers du pays (à l'exception de la province de Keneh) est affectée à la garantie des emprunts égyptiens en cas de déficit des prélèvements sur toutes les recettes de la trésorerie de l'Etat.

Au lendemain de l'abolition des capitulations et de la suppression du conseil sanitaire, décidée il y a quelques mois à Paris, la caisse de la Dette est le seul organisme international subsistant en Egypte. Il ne dérive nullement du régime capitulaire, mais il est cependant considéré par les Egyptiens comme incompatible avec l'indépendance du pays récemment consacrée par les accords internationaux.

Aussi, depuis plusieurs mois, le gouvernement égyptien a-t-il engagé avec la France et avec l'Angleterre des pourparlers dans le dessein d'abolir cette institution. Il est à penser que ces négociations aboutiront dans un très proche avenir à la solution que réclame l'Egypte. La France s'est en effet déclarée prête à consentir au transfert au gouvernement égyptien lui-même de l'administration et du service de sa dette extérieure. Quelques difficultés d'origine britannique subsistent encore, mais il est à penser que les négociations qui se poursuivent actuellement permettront au cabinet actuel de supprimer dans le prochain budget le poste important de dépenses représenté par la caisse de la Dette.

L'attitude particulièrement conciliante du gouvernement français en cette affaire où les intérêts de notre pays sont de beaucoup les plus considérables, a trouvé dans les cercles dirigeants égyptiens un très favorable accueil. La suppression de la caisse de la Dette n'est pas moins intéressante du point de vue moral. L'empressement apporté par la France à satisfaire aux demandes égyptiennes constitue un acte de confiance dans l'avenir de l'Egypte et dans celui de ses finances. L'Egypte depuis 1904 a toujours fait honneur à ses engagements financiers et sa situation actuelle se présente sous une forme qui ne laisse aucune inquiétude sur le maintien, pour l'avenir, de ces traditions.

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6

J

1933

4726
288
22 DEC

Registry Number } 4726/38/16
TELEGRAM FROM
Sir M. Lampson
(Cairo)
No. 680 Decypher
Secret.
Dated 21st Dec. 1938
Received } 22nd Dec.
in Registry } 1938
J: Egypt and
Sudan

Italian claims with regard to Suez Canal.
Refers to Cairo telegrams No. 668 (J 4599/38/16) and No. 674 (J 4624/38/16). Egyptian press has published summaries of articles in "Times" and "Spectator" seemingly in support of Italian claims as regards Suez Canal dues and representation on Board of Suez Canal Company. Believes that admission of Italian element on Board would entail serious risk to defence arrangements. Explains why he feels that it would be doubtful wisdom in principle to yield to Italian demand for representation on Board, and recommends that H.M.G. should concentrate on meeting Italy's economic demands (lowering of dues). G.O.C., and A.O.C. agree. (Repeated to Commander-in-Chief, Mediterranean).

Last Paper.

(Minutes.)

4701

References.

Cairo despatch
No. 1324 of 16th Dec.,
1938
J 4685/38/16.

(Print.)

(How disposed of.)

M. Bentinck's Comps. to
Mr. Carter (S. of C.)
Mr. Waley (T. of C.)
Capt. Dundas (R. of C.)
Copies of J 4624, J 4685,
J 4717, J 4726, J 4776.]

Dec. 30.

M. Bentinck's Comps. to
Mr. Cdr. Blackford (A. of C.)
Major Thicknesse (W. of C.)
Copies of J 4599, J 4624,
J 4685, J 4717, J 4726,
J 4776.]

Dec. 30.

(Action
completed.)

(Index.)

SP.

23.239.

Next Paper.

J 4756.

The decision reached at a recent meeting in the Secretary of State's room in regard to the Italian demand for representation on the Board of the Suez Canal Company was that it would be advisable to consult with the French Government before the Prime Minister and the Secretary of State for Foreign Affairs go to Rome as to the attitude to be adopted towards any demands that may be put forward by the Italian Government for a reduction in the dues of the Suez Canal Company and for representation on its Board. At the same time the French Government would be informed that our own attitude will be based on the principle of giving nothing away without an adequate return and that we presume that theirs will be the same; in other words, that we might be prepared, for instance, if they were, to consider the appointment of an Italian director as part of a general détente, which would naturally involve corresponding contributions by the Italian Government.

In this telegram and in his despatch No. 1324 in J 4685 Sir Miles Lampson sets out the reasons for which we should not cede to the Italian request for representation /

13263 5/36 F.O.P.

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tation on the Board of the Suez Canal Company. In a letter of March 24th last in J 1157 (Flag 'A') the Admiralty set out their objections to the appointment of an Italian director on the Board of the Suez Canal Company, but said that they did not desire to press their point of view too strongly. Whilst an Italian director would doubtless use his position to try to find out details of the defence arrangements concluded between ourselves and the Suez Canal Company I do not think that he need necessarily be successful as the details of these arrangements are, I believe, only known to the Chairman of the Company, the Secretary-General in Paris and the Managing Director in Egypt. I do not think that the Board of Directors as a whole are acquainted with these arrangements.

I would suggest (i) that a telegram should be sent to Sir Miles Lampson informing him that the articles in the 'Times' and the 'Spectator' should not be regarded as representing the attitude of H.M.G. and that the ~~considerations~~ ^{views expressed} advanced in this telegram and in his despatch No.1324 (J 4685) are receiving consideration; (ii) that copies of this telegram and of Sir Miles Lampson's despatch in J 4685 should go to the Admiralty with reference to their letter in J 1157 (Flag 'A') with an enquiry as to whether Their Lordships have any further views to offer on this subject in the light of these communications from Sir M. Lampson; (iii) that we should obtain the views of the Board of Trade regarding the present scale of dues charged by the Company, and in particular, whether they consider that the Italian demand for reduction has any justification. (I understand it is difficult to compare the dues charged on traffic passing through the Panama and Suez Canals as these dues are charged on a different basis and in the former case little,

if /

Minutes.

289

if any, account is taken of the capital expenditure involved in constructing the Canal.)

V. Cunningham-Burke.

23rd December 1938.

~~Samuel de Saut.~~
~~Mr. Burke.~~

I agree, but we will add
 that in view of the P.M.'s visit to Italy
 & the desirability of our consulting
 the French ^{in advance} as early as possible
 would be welcome? W.D. Dwyer
 23/12

I agree. Sack.
 20.12.38.

The Sack's minute
 on his advance copy
 of the tel. has this
 moment reached me
 as the paper closes.

We will pursue with
 Adm. Treasury & B.P.T.
 the question of an
 Italian Director
 20.12.38.

And can we find out whether an
 Italian director would in fact be
 able to discuss the uniformity of
 Canal defence & clearance? H. P.T.O.
 25/12

Though even if he
 can't now, it's no
 use asking him
 now, is it?

NOTHING TO BE WRITTEN IN THIS MARGIN.

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Minutes.

All the matters mentioned in the previous minutes on this paper will be considered at an interdepartmental meeting at 3 p.m. on Jan. 4th

162

10. 30. XII.

NOTHING TO BE WRITTEN IN THIS MARGIN.

290

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From EGYPT.

Decypher Sir M. Lampson (Cairo)
 21st December, 1938.
 D. 11.30 p.m. 21st December, 1938.
 R. 9.30 a.m. 22nd December, 1938.

J 4726
 22 DEC 1938

No. 680.

:--:--:--:--:--:--:

SECRET.

My telegrams Nos. 668 and 674.

Press here has published summaries of articles in the "Times" and "Spectator" seemingly in support of Italian claim as regards both the Suez Canal dues and representation on the Board of Directors. I trust that this does not represent an official attitude.

Leaf B.

4685/38/16. 2. In my despatch No. 1324 (by safe air mail which should just have reached you) I have submitted my fears in regard to admission of the latter claim. The question of shipping dues is different and though there has just been a reduction on December 15 to 5/9d. per ton there may well be (and I am advised probably is) a case on merits for further reduction. But even there I foresee opposition both from France and from Egypt: and it would be awkward politically if we found ourselves ranged with Italy against our two friends.

3. My belief is strongly that the admission of Italian element on the Board would entail a serious risk to our defence arrangements which are highly secret and the result of much careful preparation. For no Italian Director could fail to be

used/



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used by his Government as an intelligence agent.

4. I hope that I do not exaggerate or take a distorted view but in principle to yield to such a demand seems to me of the most doubtful wisdom. Italy is hardly likely to be deterred thereby from her expansionist policy in Africa. It seems more probable that she will feel that she has taken our measure and can with profit ask for more. Nor can I believe that such a sop would affect her attachment to "The axis".

5. Moreover to grant her claim would involve the admission of the principle that the chief users of the Canal have the right to participate in its control despite their having no substantial holding of shares in the Company. It is but a step to similar demands by Germany and Japan, in other words internationalization, eventually extending beyond the Board to technical personnel and staff. Quite apart from our own interests Qua defence I cannot see Egypt agreeing to anything of the sort.

6. The control of the Canal has always been a fundamental principle of our general policy. It is the reason of our presence in Egypt recently legalized expressly on that account by Treaty of Alliance. Its safety as a means of our imperial communication from the West to the East may have been affected by the growth of Italy's power in the Mediterranean but its importance in war as an inlet into the Mediterranean from the East has pro tanto increased. Our defence plans contemplate the arrival of reinforcements and essential supplies by the Eastern route./

292

3.

route. So far we have contrived to keep effective control in our hands despite the international facade of 1888 convention. And I submit that it is as important as ever -- may be more so -- that we should agree to nothing adversely affecting ^{is} ~~their~~ control.

7. There is another important aspect: our continued effective control of the Canal must surely be a decisive factor in the attitude of such countries as Turkey and Greece. Anything that could be interpreted as a weakening of the ~~unassailable~~ ^{and} dominating position risks far reaching psychological effects

8. I realize that the responsibility of advising against anything which may be regarded as likely to help towards the policy of general appeasement. But my first duty is to warn His Majesty's Government against what strikes me as a dangerous step: and I feel bound to record my conviction that the Italian demand for representation on the Canal Board is both dangerous ^{in itself} and the first move in deliberate policy of undermining not only our special position in regard to the Canal but our dominant role in Egypt. Let us if it proves feasible, concentrate on meeting their economic demands (lowering of dues) which are shared by other countries including ourselves and which avoid strategic dangers of representation on the Board.

9. The General Officer Commanding and the Air Officer Commanding both agree; and the former wishes me especially to emphasize paragraph 3 of this telegram and the strategic danger of the Italian proposal.

Addressed to Foreign Office No. 680 December 21, repeated to Commander in Chief Mediterranean.

**Extract from "La Bourse Egyptienne"
of 5th December, 1938.**

295

L'Italie et le Canal

C'est le Balagh qui expose dans un éditorial la réaction de l'Egypte devant des rumeurs traitant des vues italiennes sur le Canal de Suez.

EXIGENCES

La question du Canal de Suez tient la vedette dans l'opinion. D'une part, on voit des journalistes anglais qui vous racontent que le Canal de Suez est la source de tous les maux de l'empire et que ce passage coûtera gros en temps de guerre. D'autre part, des journaux anglais parlent du droit de l'Italie d'intervenir dans l'administration du Canal et dans la réduction du droit de transit, sous prétexte que les navires italiens payent le plus de droits après la Grande-Bretagne.

Enfin, en troisième lieu, des journaux anglais proposent de creuser un nouveau canal en Palestine reliant la Méditerranée à la Mer Rouge à la baie d'Akaba, afin de se passer du Canal de Suez si celui-ci venait à sauter en temps de guerre.

DE QU'IL FAUT RETENIR

Si nous laissons de côté la Grande-Bretagne et ses propositions qui ne sont qu'à l'état de projet, nous devons tout simplement nous arrêter devant les rumeurs des journaux italiens. Surtout si nous savons que les journaux sont tous sous le contrôle effectif du gouvernement de Rome.

JOURNALISTES

FONCTIONNAIRES

Le journaliste en Italie est presque un fonctionnaire gouvernemental. Il parle et il ne dit même des bêtises que par suite d'une inspiration ou avec quelque organisation préméditée. Nous pouvons en déduire que les Italiens demandent :

- 1) La réduction du droit de transit.
- 2) La réorganisation du Conseil d'Administration avec la présence de quelques délégués italiens.
- 3) La révision du caractère international du Canal.

L'EGYPTE EST VISEE

Le lecteur pourrait s'imaginer que ces réclamations dans leur importance visent la Compagnie. En vérité ces réclamations ne se rapportent qu'aux intérêts de l'Egypte. Toute diminution des droits de transit sera retenue à notre rencontre dans vingt ans, lorsque

nous aurons la possession du Canal de Suez. La concession de la Compagnie s'achève en 1959, date à laquelle nous allons en prendre possession. Il nous sera alors tout à fait difficile d'imposer des droits plus élevés que ceux de la Compagnie. Le gouvernement égyptien doit d'ores et déjà dire son mot dans cette affaire.

CHEZ LES ADMINISTRATEURS

Quant au Conseil d'Administration, les Italiens peuvent demander tant qu'ils voudront sa réorganisation. Etant donné que ce Conseil sera supprimé à la fin de la concession. Ce Conseil est composé actuellement de 22 membres dont la plupart sont des Français et dix sont des Anglais. Peut-être qu'il est de notre intérêt de voir le chiffre des membres anglais dépasser dix ou du moins ne pas diminuer.

Quant à la troisième demande relative au caractère international du Canal, nous ne savons pas ce que cela signifie à l'heure actuelle. S'il s'agit d'éventualité de guerre, notre gouvernement ferait bien de suivre toutes les considérations avancées.

L'INADMISSIBLE

Ce n'est point le cas. En temps de paix l'étude d'une pareille question est préférable : le Canal est avant tout et après tout un canal égyptien dans une terre égyptienne. Les Puissances, quelles qu'elles soient, n'ont pas à en parler. Nous ne saurions admettre aucune limite à notre souveraineté sur ce Canal sous prétexte qu'il a un caractère international. Toute négociation à ce sujet constitue une limite à nos droits souverains, chose que nous ne saurions admettre en aucune façon.

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31	J	J 4772 236
1938	EGYPT and SUDAN	23 DEC 1938

Registry Number } 4772/38/16.
TELEGRAM FROM Lord Perth, Rome.
No. 762 Decypher
Dated 29th Dec. 1938
Received in Registry } 29th Dec. 1938
J: Egypt and Sudan.

Italian claims with regard to the Suez Canal.
Refers to Cairo telegram No. 680 of 21st December, 1938 (J4726/38/16). Italian claims, if any, as regards the Suez Canal have never been formulated officially. Believes that any Italian demand for representation on Board of Directors would be based on genuine feeling that as Italy had become a principal user of the waterway, she ought in justice to have a fair opportunity of expressing her views on its administration. Precedent of a Dutch representative is awkward. (Repeated to Cairo).

Last Paper.

(Minutes.)

References.

This telegram, together with Sir M. Lampson's telegram No. 680 to which it refers, will be considered at the interdepartmental meeting to be held at the F.O. on January 2nd with a view to the drafting of a note for the Prime Minister and the Secretary of State on the question of Italian Suez Canal claims. I venture to submit the following comments.

The possible danger to the secrecy of our defence arrangements is a matter of very serious concern to the Admiralty. As for Lord Perth's statement that he cannot share Sir M. Lampson's view that an Italian demand for representation on the Board would be due to Italy's "expansionist policy in Africa", it may be pointed out that in para. 4 of his telegram No. 680 Sir M. Lampson merely expresses the view that Italy was hardly likely to be deterred by a refusal to yield to her demands from her expansionist policy in Africa. Sir M. Lampson's conviction that the Italian demand is a first move in a deliberate policy of undermining not only our special position in regard to the Canal but also our dominant role in Egypt is one that is

shared/

(Action completed.)

(Index.)

23.2.39

Next Paper.

J 4776

15741 9/37 F.O.P.

(How disposed of.)
App. W. O.
R. M.
T. M.
S. M.
on 156/52 9/16 1939.

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shared in certain quarters in London. Mr. Cavendish Bentinck's analogy of his rights to a seat on the Board of Messrs. Selfridges remains the answer to the argument based on Italy's use of the Canal.

The presence of a Dutch representative is, we have always admitted, awkward where there is in fact no documentary evidence that the Netherland representative was originally appointed as representing Dutch shipping.

For the purpose of Monday's meeting we should send urgently to the Service departments, Board of Trade and Treasury copies of this telegram, together with Cairo telegrams Nos. 674 (J 4624) and 680 (J 4726) and Cairo despatch No. 1324 (J 4685).
and Paris despatch no 1504 (J 4717)
Copies of Cairo telegram No. 668 (J 4599) should now be sent to the W.O. and A.M.

1 Wilson Young

December 30th, 1938.

*Smithing Dept
A. H. H. H.*

Lord Perth is correct in stating that the precedent of a Dutch representative on the board of the Suez Canal Company is awkward. It is also awkward that before the war there should have been a German director. However, the Suez Canal Company is not a cooperative concern, but a company formed by means of investment of capital for the purpose of constructing and working a canal through the isthmus of Suez. The original concession granted to the late M. de Lesseps on the 30th November, 1854, stated that he had proposed to the Khedive to constitute "une compagnie formée de capitalistes de toutes les nations", the principal investors were, however, French and the shares of the Company have never been to any extent in Italian hands....

*This is
being done*

Alian

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Minutes.

237

hands, in fact the only Italian shareholder that at present exists, so far as we are aware, is His Holiness the Pope who holds 9 shares. It is surely somewhat revolutionary that the Italian Government should claim as a right to be represented on the board of a company in which no Italian capital is invested and to the gross receipts of which they only contribute a proportion of 12 to 14%.

The Italian Government complain that the dues charged by the Suez Canal Company are too high, but they have never put forward a reasoned statement of detailed statistics supporting this contention. If the Canal Company were really taking advantage of the Italians they could charge higher dues for ships proceeding to ports ~~West~~ ^{East} of longitude 52° than for those going further east, as the latter could take the Cape route without great loss.

In this telegram Lord Perth states that he does not share the view that the Italian demand is a move in a deliberate policy of undermining not only our special position in regard to the Canal, but our domination in Egypt. I submit that, receiving reports from a variety of sources, we are here in as good a position as Lord Perth to judge what the Italian game may be, and there is every reason to believe that this campaign for representation on the board of the Suez Canal Company and ^{the} talk of internationalising it is part of the game to diminish the raison d'être for our troops in Egypt. As has been suggested previously in minutes by the department, the

Italian/

NOTHING TO BE WRITTEN IN THIS MARGIN.

Italian claims with regard to Suez Canal).

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Minutes.

Italian Government must have realised at the end of September that, in the event of war, their communications with Italian East Africa would be cut as a result of the presence of our troops in Egypt and that, unless the war finished ^{with} an early victory for the Berlin-Rome axis, Italian East Africa must inevitably be lost. Without a British army in Egypt and without facilities for our fleet at Alexandria and Port Said, the Italian Government might hope to maintain communications with East Africa with the help of their naval bases at Tobruck, Pantellaria and ^{Leros} ~~Leros~~. For the purpose of undermining our domination in Egypt they have started a campaign for the internationalisation of the Suez Canal and propaganda in Egypt to persuade the Egyptian Government to insist on a revision of Article 7 of the Treaty of Alliance by which Egypt is, in the event of war, bound to come to our aid in the capacity of an ally and to furnish our forces with all facilities.

It is true that an Italian claim as regards the Suez Canal has never been formulated officially, but it is part of the game of the Berlin-Rome axis to put out numerous and large ballons d'essai in the press ^{in order} to see how far they can go and how far the French and ourselves ^{are likely to} ~~will~~ yield for the sake of appeasement.

I submit herewith a further telegram from Lord Perth (J 4776) in which he reports that Count Ciano told the Belgian Ambassador in Rome that he had not really studied the question of Italian desiderata in regard to the Suez Canal, (this statement seems to require a grain of salt), but that he thought that Italy ought to have some representation/

hands....

NOTHING TO BE WRITTEN IN THIS MARGIN.

Minutes.

298

representation on the Company's board, France giving up ^w/_{to} or three Directors' seats and that there ought to be a reduction in the tariffs. The Suez Canal Company is a French company and if the French Government can in return for a genuine quid pro quo persuade the board of Directors to elect an Italian national when next a vacancy occurs, that is their business and one in which I do not see that we need interfere or that our interference would be welcome. As regards a reduction in tariffs we are discussing the ^{possibilities} ~~situation~~ in this respect with the Board of Trade. The suggestion that the Canal ought to become internationalised and the inference of the Belgian Ambassador that Count Ciano referred in this respect to the moment when the control of the Canal would revert entirely to the Egyptian Government, is interesting. The present concession does not expire until 1968 and I do not see the Fascist Government waiting quietly for 30 years for anything. I have a fear that we may be faced with propaganda in Egypt in favour of a revocation of the concession granted to the Suez Canal Company in the hope that, if and when this concession is revoked and the Canal is taken over by the Egyptian Government, some fresh international agreement will be necessary in which Italy may secure better terms and in the negotiations for which Italy may be able to redouble her efforts with greater success to obtain the removal of our forces from Egypt, perhaps suggesting that the permanent neutrality of Egypt and the Suez Canal should be guaranteed by all the Mediterranean Powers ^{as was done by Belgium prior to 1914.}

V. C. *[Signature]*
December 30th, 1938.

NOTHING TO BE WRITTEN IN THIS MARGIN.

Italian claims with regard to Suez Canal.

Minutes.

I think Mr. Bentinck's arguments are logically sound and convincing. At the same time I imagine that the reason why the Dutch have a director & why the Germans had one was because of the Netherlands German overseas possessions with which the Canal was as valuable, if not ^{an} essential link. In equity I think there is much to be said for the Italians having a seat, but I don't particularly want to see them with one.

J.P.B. Ingram
31/XII/28

I think we must face the fact that sooner rather than later there will be an Italian director on the Suez Canal Board. Even so, I do not see why the presence of this individual ^{need} should really weaken our ability to resist the sinister plans of the Italian Government as described by Mr. Cavendish-Bentinck.

D.B. Barger

December 31st, 1938.

This may have to come.
but I can only hope not yet. But

hands....

NOTHING TO BE WRITTEN IN THIS MARGIN.

alia

Minutes.

299

But it would complicate
greatly & jeopardize
gravely various matters
of a secret nature
regarding our security
measures for the
defence of the Canal
and of our fleet.

No. 1, Jan/39.

A.G.
Jan. 2. 1939.

Whether the merits of the particular
matter - & if one puts oneself in
Italian shoes, they would no doubt
seem substantial - I think he should
be wise to make plain in Rome that
his also must defend the real interests
of France - Italian relation -

H. L.

NOTHING TO BE WRITTEN IN THIS MARGIN.

Italian claims with regard to Suez Canal).

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4772

300

FROM ITALY

Decypher. The Earl of Perth (Rome).
29th December, 1938.

D. 12.40 p.m. 29th December, 1938.

R. 2.15 p.m. 29th December, 1938.

No. 762.

Sir Miles Lampson's telegram No. 680.

74726 Day A.

Secret.

Italian claim if any as regards Suez Canal have never been formulated officially.

While I am ignorant of how far Italian representation on the Board of Directors would affect our and Egyptian arrangements regarding defence of the Canal I cannot share the view that such an Italian demand if it were put forward would be due to Italy's "expansionist policy in Africa" or "a first move in a deliberate policy of undermining not only our special position in regard to the Canal but our domination in Egypt". It would be based on genuine feeling that as Italy had become a principal user of the waterway she ought in justice to have a fair opportunity of expressing her views on its administration and representation on the Board is the reasonable method by which this should be affected.

The precedent of a Dutch representative is awkward to say the least.

Addressed to Foreign Office No. 762, December 29th, repeated to Cairo.

Italian claims with regard to Suez Canal.

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132

J

J 4776
30 1938 301

1938

EGYPT and SUDAN

Registry Number } J 4776/38/16.
TELEGRAM FROM
Lord Perth, (Rome).
No. 764 Decypher.
Dated 29th December, 1938
Received in Registry } 30th December 1938
J: Egypt and Sudan.

Italian claims with regard to the Suez Canal.
Reports conversation which Belgian Representative in Rome, who said that Italian Minister for Foreign Affairs had told him that he thought that Italy ought to have some representation on Board of Suez Canal Co., France giving up two or three seats; and that there ought to be a reduction in Canal tariffs. Count Ciano also remarked that he thought that ultimately Suez Canal ought to become internationalized. Belgian Ambassador drew conclusion that Italians did not intend to put forward demand for internationalization at present time.
(Repeated to Paris).

Last Paper.

(Minutes.)

References.

This is being distributed
regularly with the other papers to
the Depts. which are to be
represented at the meeting
on Monday.

(Print.)

(How disposed of.)

copies sent to Prof J.
Tay
Adair
A. M.
W. P. on
J 4726 138/16
K. A. Cairns.
to 31 Jan. 10.
to Mr Weston (Prof J)
from Mr Wilson Young
Dec 30

Cong to Cairo by air bag.
Southey Dept. 9/11/38
Wilson Young
30/12

Please see minutes on J. 4772

30. XII
L. O. 1. Jan. 39.
A. O.
H

(Action completed.)

(Index)

10.1.39

Next Paper

39/139/16 - State Egyptian relations.
32/62/16 /1939
Italian claims with regard to Suez Canal.

15741 9/37 F.O.P.

1	2	cms	PUBLIC RECORD OFFICE	ins	1	2
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From ITALY.

Decypher. The Earl of Perth (Rome),
29th December, 1938.

D. 9.45 p.m. 29th December, 1938.

R. 9.30 a.m. 30th December, 1938.

No. 764.

My Belgian colleague came to see me this morning to have an exchange of views about the situation as between French and Italians. He had just passed through Paris and explained to me the strength of feeling against Italy there.

He told me that a short time ago he had had a conversation with Count Ciano and had asked the Minister for Foreign Affairs what the Italians desired in regard to the Suez Canal. The Minister for Foreign Affairs replied that he had not really studied the question but that he thought Italy ought to have some representation on the board of the Canal, France giving up two or three director's seats, and that there ought to be a reduction in the tariffs. Lastly Count Ciano remarked that he thought ultimately the Canal ought to become internationalized since it was not proper that one country should control what was in fact a great highway of international commerce. The Ambassador drew the conclusion that Italians did not intend to put forward demand for internationalization at the present time and that the Minister for Foreign Affairs' remarks rather referred to the moment when the control of the Canal would revert entirely to the Egyptian Government.

Addressed to Foreign Office No. 764, repeated to Paris.

OUT FILE

FOREIGN OFFICE, S.W.1. 303

December 30th, 1938.

URGENT.

Dear Sir,

As you are aware there is to be an interdepartmental meeting at the Foreign Office on Monday afternoon, January 2nd, at 3 p.m. to discuss the Italian claims in connexion with the Suez Canal Company. The meeting will be in Room 89 on the second floor.

This letter is to warn you that the Foreign Office would appreciate at the meeting the views of your department on the following questions:-

1. Has justification in theory or the Italian claims that the Suez Canal dues should be lowered?
2. Are the profits of the Company unjustifiably high?
3. Is the Company efficiently run?
4. What effect could a reduction in the dues have on dividends?

I am sending a copy of this letter to Young at the Treasury, Hanson at the Admiralty, Thompson at the War Office and Blackford at the Air Ministry.

Yours sincerely,

G. Weston, Esq.,
Board of Trade.

(sgd.) I. ILLON YOUNG.

draft decree
convention only
Young (Trg)
to Wilson Young's
Jan. 25th

(Index)
15/11
38
Text Paper.
70 (J107)
(J291)

between the paper and the draft (herein). It is quite evident from this paper that the draft decree and the draft convention cannot stand as they are. I have marked in red the passage which ^{has been} will have to be revised. There may still be others.

Presumably Article 5 of the draft agreement will come out altogether. The figure in Article 2 will stand as £ E 4,000,000. The which was previously Article 14 of the original draft